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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

001-33289
Commission File Number

ENSTAR GROUP LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(Address of principal executive office, including zip code)

(441) 292-3645
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of November 5, 2012, the registrant had outstanding 13,858,810 voting ordinary shares and 2,725,637 non-voting convertible ordinary shares, each par value $1.00 per share.

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PART I — FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2012 and December 31, 2011

	September 30, 2012	December 31, 2011
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 381,106	$ 410,269
Fixed maturities, available-for-sale, at fair value (amortized cost: 2012 — $302,954; 2011 — $590,588)	310,642	607,316
Fixed maturities, trading, at fair value	2,361,540	2,035,369
Equities, trading, at fair value	101,072	89,981
Other investments, at fair value	389,728	192,264
Total investments	3,544,088	3,335,199
Cash and cash equivalents	644,355	850,474
Restricted cash and cash equivalents	289,111	373,191
Accrued interest receivable	28,801	26,924
Accounts receivable	21,179	50,258
Income taxes recoverable	11,493	10,559
Reinsurance balances recoverable	1,246,307	1,789,582
Funds held by reinsured companies	83,945	107,748
Goodwill	21,222	21,222
Other assets	17,969	40,981
TOTAL ASSETS	$5,908,470	$6,606,138
LIABILITIES		
Losses and loss adjustment expenses	$3,639,005	$4,282,916
Reinsurance balances payable	183,059	208,540
Accounts payable and accrued liabilities	91,406	75,983
Income taxes payable	16,682	16,985
Loans payable	127,158	242,710
Other liabilities	106,971	95,593
TOTAL LIABILITIES	4,164,281	4,922,727
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Share capital		
Authorized, issued and fully paid, par value $1 each (authorized 2012: 156,000,000; 2011: 156,000,000)		
Ordinary shares (issued and outstanding 2012: 13,713,088; 2011: 13,665,051)	13,713	13,665
Non-voting convertible ordinary shares:		
Series A (issued 2012: 2,972,892; 2011: 2,972,892)	2,973	2,973
Series B, C and D (issued and outstanding 2012: 2,725,637; 2011: 2,725,637)	2,726	2,726
Treasury shares at cost (Series A non-voting convertible ordinary shares 2012: 2,972,892; 2011: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	959,191	956,329
Accumulated other comprehensive income	27,283	27,096
Retained earnings	902,947	804,836
Total Enstar Group Limited Shareholders' Equity	1,487,274	1,386,066
Noncontrolling interest	256,915	297,345
TOTAL SHAREHOLDERS' EQUITY	1,744,189	1,683,411
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$5,908,470	$6,606,138

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Nine Month Periods Ended September 30, 2012 and 2011

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Consulting fees	$ 1,944	$ 1,623	$ 5,913	$ 7,704
Net investment income	19,658	18,498	60,995	53,105
Net realized and unrealized gains (losses)	28,280	(8,512)	55,353	6,983
Gain on bargain purchase	—	—	—	13,105
	49,882	11,609	122,261	80,897
EXPENSES				
Net reduction in ultimate loss and loss adjustment expense liabilities:				
Reduction in estimates of net ultimate losses	(58,506)	(42,467)	(120,221)	(72,908)
Reduction in provisions for bad debt	—	(2,399)	(2,782)	(4,071)
Reduction in provisions for unallocated loss adjustment expense liabilities	(12,579)	(14,113)	(37,092)	(37,433)
Amortization of fair value adjustments	8,538	8,865	18,365	25,911
	(62,547)	(50,114)	(141,730)	(88,501)
Salaries and benefits	25,138	20,923	69,968	48,028
General and administrative expenses	14,409	20,759	43,423	66,720
Interest expense	1,713	2,435	5,886	6,098
Net foreign exchange losses (gains)	977	(8,878)	2,618	388
	(20,310)	(14,875)	(19,835)	32,733
EARNINGS BEFORE INCOME TAXES	70,192	26,484	142,096	48,164
INCOME TAXES	(14,700)	(4,436)	(30,347)	(6,028)
NET EARNINGS	55,492	22,048	111,749	42,136
Less: Net earnings attributable to noncontrolling interest	(7,776)	(9,984)	(13,638)	(17,194)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 47,716	$ 12,064	$ 98,111	$ 24,942
EARNINGS PER SHARE — BASIC:				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$ 2.90	$ 0.85	$ 5.97	$ 1.81
EARNINGS PER SHARE — DILUTED				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$ 2.86	$ 0.83	$ 5.88	$ 1.78
Weighted average ordinary shares outstanding — basic	16,437,780	14,270,003	16,433,943	13,743,191
Weighted average ordinary shares outstanding — diluted	16,676,529	14,559,164	16,674,356	14,025,144

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Month Periods Ended September 30, 2012 and 2011

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$ 55,492	$ 22,048	$111,749	$ 42,136
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on available-for-sale investments arising during the period	25,464	(14,592)	53,135	(7,120)
Reclassification adjustment for net realized and unrealized (gains) losses included in net earnings	(28,280)	8,512	(55,353)	6,983
Decrease in defined benefit pension liability	—	—	—	272
Currency translation adjustment	3,597	(25,526)	2,689	(13,271)
Total other comprehensive income (loss)	781	(31,606)	471	(13,136)
Comprehensive income (loss)	56,273	(9,558)	112,220	29,000
Less comprehensive income attributable to noncontrolling interest	(7,652)	(3,262)	(13,921)	(13,623)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 48,621	$(12,820)	$ 98,299	$ 15,377

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Month Periods Ended September 30, 2012 and 2011

	Nine Months Ended September 30,	
	2012	2011
	(expressed in thousands of U.S. dollars)	
Share Capital — Ordinary Shares		
Balance, beginning of period	$ 13,665	$ 12,940
Issue of shares	4	539
Share awards granted/vested	44	42
Balance, end of period	$ 13,713	$ 13,521
Share Capital — Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,973	$ 2,973
Share Capital — Series B, C and D Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 2,726	$ —
Preferred shares converted	—	750
Balance, end of period	$ 2,726	$ 750
Share Capital — Preference Shares		
Balance, beginning of period	$ —	$ —
Issue of shares	—	750
Shares converted	—	(750)
Balance, end of period	$ —	$ —
Treasury Shares		
Balance, beginning and end of period	$(421,559)	$(421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 956,329	$ 667,907
Issue of shares and warrants, net	415	105,439
Share awards granted/vested	381	168
Amortization of share awards	2,066	1,957
Balance, end of period	$ 959,191	$ 775,471
Accumulated Other Comprehensive Income Attributable to Enstar Group Limited		
Balance, beginning of period	$ 27,096	$ 35,017
Foreign currency translation adjustments	1,332	(9,623)
Net movement in unrealized holding losses on investments	(1,145)	(213)
Decrease in defined benefit pension liability	—	272
Balance, end of period	$ 27,283	$ 25,453
Retained Earnings		
Balance, beginning of period	$ 804,836	$ 651,143
Net earnings attributable to Enstar Group Limited	98,111	24,942
Balance, end of period	$ 902,947	$ 676,085
Noncontrolling Interest		
Balance, beginning of period	$ 297,345	$ 267,400
Return of capital	(35,366)	(16,200)
Dividends paid	(18,985)	—
Net earnings attributable to noncontrolling interest	13,638	17,194
Foreign currency translation adjustments	1,356	(3,647)
Net movement in unrealized holding (losses) gains on investments	(1,073)	76
Balance, end of period	$ 256,915	$ 264,823

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Month Periods Ended September 30, 2012 and 2011

	Nine Months Ended September 30,	
	2012	2011
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 111,749	$ 42,136
Adjustments to reconcile net earnings to cash flows used in operating activities:		
Gain on bargain purchase	—	(13,105)
Net realized and unrealized investment (gains) losses	(42,825)	348
Net realized and unrealized gains from other investments	(12,528)	(7,331)
Other items	3,296	5,404
Depreciation and amortization	1,004	1,194
Amortization of premiums and discounts	23,017	16,717
Net movement of trading securities held on behalf of policyholders	15,529	(1,039)
Sales and maturities of trading securities	1,709,227	993,125
Purchases of trading securities	(2,008,346)	(1,535,777)
Changes in assets and liabilities:		
Reinsurance balances recoverable	543,427	88,289
Other assets	73,590	75,142
Losses and loss adjustment expenses	(645,516)	(210,735)
Reinsurance balances payable	(25,546)	(29,683)
Accounts payable and accrued liabilities	(12,954)	(45,348)
Other liabilities	10,747	(62,877)
Net cash flows used in operating activities	(256,129)	(683,540)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	—	(88,505)
Sales and maturities of available-for-sale securities	296,537	332,560
Movement in restricted cash and cash equivalents	84,080	210,968
Funding of other investments	(182,671)	(25,703)
Redemption of bond funds	103	66,925
Other investing activities	(636)	(282)
Net cash flows provided by investing activities	197,413	495,963
FINANCING ACTIVITIES:		
Net proceeds from issuance of shares	—	105,921
Distribution of capital to noncontrolling interest	(7,236)	(16,200)
Dividends paid to noncontrolling interest	(18,985)	—
Receipt of loans	—	274,150
Repayment of loans	(115,875)	(207,016)
Net cash flows (used in) provided by financing activities	(142,096)	156,855
TRANSLATION ADJUSTMENT	(5,307)	(5,855)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(206,119)	(36,577)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	850,474	799,154
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 644,355	$ 762,577
Supplemental Cash Flow Information		
Net income taxes paid	$ 22,093	$ 59,700
Interest paid	$ 5,556	$ 6,359

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012 and December 31, 2011
(Tabular information expressed in thousands of U.S. dollars except share and per share data)
(unaudited)

1. BASIS OF PREPARATION AND CONSOLIDATION

The Company's condensed consolidated financial statements have not been audited. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. The results of operations for any interim period are not necessarily indicative of the results for a full year. Inter-company accounts and transactions have been eliminated. In these notes, the terms "we," "us," "our," or "the Company" refer to Enstar Group Limited and its direct and indirect subsidiaries. The following information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Certain reclassifications have been made to the prior period reported amounts of investment income and net realized and unrealized gains and losses to conform to the current period presentation. These reclassifications had no impact on income or net earnings previously reported.

Adoption of New Accounting Standards

In May 2011, the U.S. Financial Accounting Standards Board ("FASB") issued amendments to disclosure requirements for common fair value measurement. These amendments result in a common definition of fair value and common requirements for measurement of and disclosure requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments change some fair value measurement principles and disclosure requirements. The Company adopted this amended accounting guidance effective January 1, 2012. The adoption of the amended guidance did not have a material impact on the consolidated financial statements.

In June 2011, FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this amended accounting guidance effective January 1, 2012. The adoption of the amended guidance had no impact on the consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In December 2011, FASB issued new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivatives. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under IFRS. The new disclosure requirements are effective retrospectively for annual and interim reporting periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of adopting these revised disclosure requirements on the consolidated financial statements.

2. ACQUISITIONS

The Company accounts for acquisitions using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value. The fair values of each of the reinsurance assets and liabilities acquired are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy. Any

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. ACQUISITIONS — (cont'd)

amendment to the fair values resulting from changes in such information or strategy will be recognized when the changes occur. Refer to Note 3 of Item 8 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for more information on the accounting for acquisitions.

SeaBright

On August 27, 2012, the Company, AML Acquisition, Corp. ("AML"), a wholly-owned subsidiary of the Company, and SeaBright Holdings, Inc. ("SeaBright") entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for the merger of AML with and into SeaBright (the "Merger"), with SeaBright surviving the Merger as an indirect, wholly-owned subsidiary of the Company. SeaBright owns SeaBright Insurance Company, an Illinois domiciled insurer that is commercially domiciled in California. The Company expects to pay the aggregate purchase price of approximately $252.2 million through a combination of cash on hand and a bank loan facility to be finalized before closing.

At the effective date of the Merger, each outstanding share of SeaBright common stock (other than shares held by SeaBright in treasury or held by stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law) will be automatically cancelled and converted into the right to receive $11.11 in cash, without interest (the "Merger Consideration"). Each outstanding option to purchase shares of SeaBright common stock will fully vest at the effective date of the Merger and be cancelled and converted into the right to receive the Merger Consideration less the per share exercise price of the option. Each outstanding share of SeaBright restricted stock and each SeaBright restricted stock unit will fully vest at the effective time and be cancelled and converted into the right to receive the Merger Consideration. Consummation of the Merger is subject to certain conditions, including the adoption of the Merger Agreement by SeaBright's stockholders, receipt of certain regulatory approvals and certain other customary closing conditions. The transaction is expected to close in the fourth quarter of 2012 or the first quarter of 2013.

HSBC

On September 6, 2012, the Company and its wholly-owned subsidiary, Pavonia Holdings (US), Inc. ("Pavonia"), entered into a definitive agreement for the purchase of all of the shares of Household Life Insurance Company of Delaware ("HLIC DE") and HSBC Insurance Company of Delaware ("HSBC DE") from Household Insurance Group Holding Company, an affiliate of HSBC Holdings plc. HLIC DE and HSBC DE are both Delaware domiciled insurers in run-off. HLIC DE owns three other insurers domiciled in Michigan, New York, and Arizona, respectively, all of which will be in run-off at the time the transaction closes. The companies to be acquired have written various U.S. and Canadian life insurance, including credit insurance, term life insurance, assumed reinsurance, corporate owned life insurance, and annuities.

The base purchase price of approximately $181.0 million will be adjusted under the terms of the stock purchase agreement based upon changes to the capital and surplus of the acquired entities arising from the operation of the business prior to closing. The Company expects to finance the purchase price through a combination of cash on hand and a drawing under its Revolving Credit Facility with National Australia Bank Limited and Barclays Corporate (the "EGL Revolving Credit Facility"). The Company is a party to the acquisition agreement and has guaranteed the performance by Pavonia of its obligations thereunder. Completion of the transaction is conditioned on, among other things, governmental and regulatory approvals and satisfaction of various customary closing conditions. The transaction is expected to close by the end of the first quarter of 2013.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. SIGNIFICANT NEW BUSINESS

Zurich Danish Portfolio

On June 30, 2012, the Company, through the Danish branch of its wholly-owned subsidiary, Marlon Insurance Company Limited ("Marlon"), acquired by way of loss portfolio transfer under Danish law, a portfolio of reinsurance and professional disability business from the Danish branch of Zurich Insurance Company ("Zurich"). After reflecting the final balances reported by Zurich, Marlon received total assets and liabilities of approximately $60.0 million.

Reciprocal of America

On July 6, 2012, the Company, through its wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers compensation business. The estimated total assets and liabilities to be assumed are approximately $174.0 million. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close in the first quarter of 2013.

Claremont

On August 6, 2012, the Company, through its wholly-owned subsidiary, Fitzwilliam Insurance Limited ("Fitzwilliam"), entered into a novation agreement with another of the Company's wholly-owned subsidiaries, Claremont Liability Insurance Company ("Claremont"), and one of Claremont's reinsurers with respect to a quota share contract. Under the novation agreement, Fitzwilliam replaced the reinsurer on the quota share contract in exchange for total assets and liabilities of approximately $16.5 million.

4. INVESTMENTS

Available-for-sale

The amortized cost and estimated fair values of the Company's fixed maturity securities classified as available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
As at September 30, 2012				
U.S. government and agency	$ 4,532	$ 494	$ —	$ 5,026
Non-U.S. government	122,844	4,290	(222)	126,912
Corporate	169,117	3,436	(538)	172,015
Residential mortgage-backed	4,701	270	(80)	4,891
Commercial mortgage-backed	1,376	45	—	1,421
Asset-backed	384	9	(16)	377
	$302,954	$ 8,544	$ (856)	$310,642

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
As at December 31, 2011				
U.S. government and agency	$ 17,816	$ 546	$ (433)	$ 17,929
Non-U.S. government	160,128	9,227	(828)	168,527
Corporate	366,954	7,937	(2,578)	372,313
Residential mortgage-backed	13,544	276	(108)	13,712
Commercial mortgage-backed	12,680	3,044	(7)	15,717
Asset-backed	19,466	65	(413)	19,118
	$590,588	$21,095	$ (4,367)	$607,316

Included within residential and commercial mortgage-backed securities as at September 30, 2012 are securities issued by U.S. governmental agencies with a fair value of $3,889 (as at December 31, 2011: $4,624).

The following tables summarize the Company's fixed maturity securities classified as available-for-sale in an unrealized loss position as well as the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
As at September 30, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency	$ —	$ —	$ —	$ —	$ —	$ —
Non-U.S. government	2,599	(133)	3,770	(89)	6,369	(222)
Corporate	15,372	(113)	18,371	(425)	33,743	(538)
Residential mortgage-backed	1,129	(80)	1	—	1,130	(80)
Commercial mortgage-backed	—	—	—	—	—	—
Asset-backed	212	(16)	—	—	212	(16)
	$19,312	$ (342)	$22,142	$ (514)	$41,454	$ (856)

	12 Months or Greater		Less Than 12 Months		Total	
As at December 31, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency	$ —	$ —	$ 8,318	$ (433)	$ 8,318	$ (433)
Non-U.S. government	14,982	(466)	16,305	(362)	31,287	(828)
Corporate	47,197	(1,367)	54,106	(1,211)	101,303	(2,578)
Residential mortgage-backed	1,299	(105)	36	(3)	1,335	(108)
Commercial mortgage-backed	—	—	215	(7)	215	(7)
Asset-backed	7,577	(187)	6,491	(226)	14,068	(413)
	$71,055	$ (2,125)	$85,471	$ (2,242)	$156,526	$ (4,367)

As at September 30, 2012 and December 31, 2011, the number of securities classified as available-for-sale in an unrealized loss position was 37 and 107, respectively, with a fair value of $41.5 million and $156.5 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 25 and 59, respectively. As of September 30, 2012, none of these securities were considered to be other than temporarily impaired.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

The contractual maturities of the Company's fixed maturity securities classified as available-for-sale are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As at September 30, 2012	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$225,146	$227,225	73.1%
Due after one year through five years	68,264	73,299	23.6%
Due after five years through ten years	—	—	—
Due after ten years	3,083	3,429	1.1%
	296,493	303,953	97.8%
Residential mortgage-backed	4,701	4,891	1.6%
Commercial mortgage-backed	1,376	1,421	0.5%
Asset-backed	384	377	0.1%
	$302,954	$310,642	100.0%

As at December 31, 2011	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$230,550	$230,377	37.9%
Due after one year through five years	308,062	322,131	53.0%
Due after five years through ten years	3,296	3,367	0.6%
Due after ten years	2,990	2,894	0.5%
	544,898	558,769	92.0%
Residential mortgage-backed	13,544	13,712	2.3%
Commercial mortgage-backed	12,680	15,717	2.6%
Asset-backed	19,466	19,118	3.1%
	$590,588	$607,316	100.0%

The following tables set forth certain information regarding the credit ratings (provided by major rating agencies) of the Company's fixed maturity securities classified as available-for-sale:

As at September 30, 2012	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$111,505	$115,607	37.2%
AA	82,714	84,430	27.2%
A	99,310	100,912	32.5%
BBB or lower	9,085	8,971	2.9%
Not Rated	340	722	0.2%
	$302,954	$310,642	100.0%

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

As at December 31, 2011	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$204,967	$214,873	35.4%
AA	131,092	132,971	21.9%
A	210,040	215,225	35.4%
BBB or lower	44,100	43,526	7.2%
Not Rated	389	721	0.1%
	$590,588	$607,316	100.0%

Trading

The estimated fair values of the Company's investments in fixed maturity securities, short-term investments and equities classified as trading securities were as follows:

	September 30, 2012	December 31, 2011
U.S. government and agency	$ 375,150	$ 400,908
Non-U.S. government	269,376	212,251
Corporate	1,767,571	1,595,930
Municipal	20,568	25,416
Residential mortgage-backed	119,462	97,073
Commercial mortgage-backed	135,740	70,977
Asset-backed	54,779	43,083
Equities	101,072	89,981
	$2,843,718	$2,535,619

The following tables set forth certain information regarding the credit ratings (provided by major rating agencies) of the Company's fixed maturity securities and short-term investments classified as trading:

As at September 30, 2012	Fair Value	% of Total Fair Value
AAA	$ 404,395	14.7%
AA	1,057,034	38.5%
A	893,069	32.6%
BBB or lower	370,240	13.5%
Not Rated	17,908	0.7%
	$2,742,646	100.0%

As at December 31, 2011	Fair Value	% of Total Fair Value
AAA	$ 881,951	36.0%
AA	400,394	16.4%
A	796,608	32.6%
BBB or lower	341,307	14.0%
Not Rated	25,378	1.0%
	$2,445,638	100.0%

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

Other Investments

The estimated fair values of the Company's other investments were as follows:

	September 30, 2012	December 31, 2011
Private equity funds	$ 115,199	$ 107,388
Bond funds	147,609	54,537
Fixed income hedge funds	52,322	24,395
Equity fund	53,889	—
Real estate debt fund	15,861	—
Other	4,848	5,944
	$ 389,728	$ 192,264

These investments are discussed in further detail below.

Private equity funds

This class is comprised of several private equity funds that invest primarily in the financial services industry. All of the Company's investments in private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit the Company's ability to liquidate those investments. These restrictions have been in place since the dates the initial investments were made by the Company.

As of September 30, 2012 and December 31, 2011, the Company had $115.2 million and $107.4 million, respectively, of other investments recorded in private equity funds, which represented 2.6% and 2.4% of total investments, cash and cash equivalents and restricted cash and cash equivalents at September 30, 2012 and December 31, 2011. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag.

Bond funds

This class is comprised of a number of positions in diversified bond mutual funds managed by third-party managers.

Fixed income hedge funds

This class is comprised of hedge funds that invest in a diversified portfolio of debt securities. The advisor of the funds intends to seek attractive risk-adjusted total returns for the funds' investors by acquiring, originating, and actively managing a diversified portfolio of debt securities, with a focus on various forms of asset-backed securities and loans. The funds focus on investments that the advisor believes to be fundamentally undervalued with current market prices that are believed to be compelling relative to intrinsic value. The hedge funds are not currently eligible for redemption due to imposed lock-up periods of three years from the time of the Company's initial investment. Once eligible, redemptions will be permitted quarterly with 90 days' notice. The first investment in the funds will be eligible for redemption in March 2014.

Equity fund

This class is comprised of an equity fund that invests in a diversified portfolio of international publicly-traded equity securities. The manager of the fund seeks to maximize the intrinsic value of the portfolio by focusing on price and quality.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

Real estate debt fund

This class is comprised of a real estate debt fund that invests primarily in U.S. commercial real estate. A redemption request for this fund can be made 10 days after the date of any monthly valuation; the fund states that it will make commercially reasonable efforts to redeem the investment within the next monthly period.

Other

This class is comprised primarily of the College and University Facility Loan Trust (the "Loan Trust"). The Loan Trust provides loans to educational institutions throughout the U.S. and its territories. The Company holds Class B certificates of the Loan Trust and accordingly receives semi-annual distributions. The Company has no redemption rights with respect to its investment in the Loan Trust.

Redemption restrictions on other investments

The following table presents the total fair value, unfunded commitments and redemption frequency for all other investments. These investments are all valued at net asset value as at September 30, 2012:

	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Redemption Frequency
Private equity funds	$115,199	$ —	$ 115,199	$ 63,099	Not eligible
Bond funds	147,609	—	147,609	—	Daily to monthly
Fixed income hedge funds	52,322	—	52,322	—	Quarterly after lock-up periods expire
Equity funds	53,889	—	53,889	—	Bi-monthly
Real estate debt fund	15,861	—	15,861	—	10 days notice after monthly valuation
Other	4,848	—	4,848	696	Not eligible
	$389,728	$ —	$ 389,728	$ 63,795	

Certain funds included in other investments are subject to a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem the investment. Funds that do provide for periodic redemptions may, depending on the funds' governing documents, have the ability to deny or delay a redemption request, which is called a "gate." The fund may restrict redemptions because the aggregate amount of redemption requests as of a particular date exceeds a specified level. The gate is a method for executing an orderly redemption process that allows for redemption requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion to be settled in cash sometime after the redemption date.

Certain funds included in other investments may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a "side-pocket", whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or is otherwise deemed liquid by the fund, may investors redeem their interest in the side-pocket.

Information regarding other investments the Company has with related parties is described in "Note 12 —Related Party Transactions".

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

Other-Than-Temporary Impairment Process

The Company assesses whether declines in the fair value of its fixed maturity investments classified as available-for-sale represent impairment losses that are other-than-temporary and whether a credit loss exists in accordance with its accounting policies. The Company had no planned sales of its fixed maturity investments classified as available-for-sale as at September 30, 2012. In assessing whether it is more likely than not that the Company will be required to sell a fixed maturity investment before its anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short-term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors. For the nine months ended September 30, 2012, the Company did not recognize any other-than-temporary impairments due to required sales. The Company determined that, as at September 30, 2012, no credit losses existed.

Fair Value of Financial Instruments

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The Company uses a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 — Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgment about assumptions that market participants might use.

The following is a summary of valuation techniques or models the Company uses to measure fair value by asset and liability classes.

Fixed Maturity Investments

The Company's fixed maturity portfolio is managed by the Company's Chief Investment Officer and outside investment advisors with oversight from the Company's Investment Committee. Fair value prices for all securities in the fixed maturities portfolio are independently provided by the investment custodian, investment accounting service provider and investment managers, each of which utilize internationally recognized independent pricing services. Interactive Data Corporation is, however, the main pricing service utilized to estimate the fair value measurements for the Company's fixed maturity investments. The Company records the unadjusted price provided by the investment custodian, investment accounting service provider or the investment manager and validates this price through a process that includes, but is not limited to: (i) comparison of prices between two independent sources, with significant differences requiring additional price sources; (ii) quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to the Company's

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

knowledge of the current investment market. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

The independent pricing services used by the investment custodian, investment accounting service provider and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

The following describes the techniques generally used to determine the fair value of the Company's fixed maturities by asset class.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3. As at September 30, 2012, the Company had one corporate security classified as Level 3.
- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

- Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3. As at September 30, 2012, the Company had no residential or commercial mortgage-backed securities classified as Level 3.

Equity Securities

The Company's equity securities are traded on the major exchanges and are managed by two external advisors. The Company uses Interactive Data Corporation, an internationally recognized pricing service, to estimate the fair value for all of its equity securities. The Company's equity securities are widely diversified and there is no significant concentration in any specific industry.

The Company has categorized all of its investments in common stock as Level 1 investments because the fair values of these securities are based on quoted prices in active markets for identical assets or liabilities. Because their fair value estimates are based on observable market data, the Company has categorized its investments in preferred stock as Level 2, with the exception of one investment in preferred stock that has been categorized as Level 3.

Other Investments

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, the Company obtains the audited financial statements for every fund annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate net asset value is a permitted practical expedient. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value (and not use the permitted practical expedient) on an investment by investment basis. These adjustments may involve significant management judgment.

For its investments in private equity funds, the Company measures fair value by obtaining the most recently published net asset value as advised by the external fund manager or third-party administrator. The funds calculate net asset value on a fair value basis. For all publicly-traded companies within the funds, the Company adjusts the net asset value based on the latest share price. The Company has classified its investments in private equity funds as Level 3 investments because they reflect the Company's own judgment about the assumptions that market participants might use.

The bond funds in which the Company invests have been classified as Level 2 investments because their fair value is estimated using the net asset value reported by Bloomberg and because the bond funds provide daily liquidity.

For its investments in fixed income hedge funds, the Company measures fair value by obtaining the most recently published net asset value as advised by the external fund manager or third-party administrator. The investments in the funds are classified as Level 3 in the fair value hierarchy.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

For its investment in the equity fund, the Company measures fair value by obtaining the most recently published net asset value. The investment in the fund is classified as Level 2 because the fair value is provided daily by the administrator and the underlying investments of the fund are publicly-traded equities.

For its investment in the real estate debt fund, the Company measures fair value by obtaining the most recently published net asset value as advised by the external fund manager or third-party administrator. The investment in the fund is classified as Level 3 in the fair value hierarchy.

For its investment in the Loan Trust, the Company measures fair value by obtaining the most recently published financial statements of the Loan Trust. The financial statements of the Loan Trust are audited annually in accordance with U.S. GAAP. In addition to the annual audited financial statements issued by the Loan Trust, it also provides unaudited statements on a semi-annual basis. The investment in the Loan Trust is classified as Level 3 in the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications between Level 1, 2 and 3 of the fair value hierarchy are reported as transfers in and/or out as of the beginning of the quarter in which the reclassifications occur.

Fair Value Measurements

In accordance with the provisions of the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification ("ASC") 820, the Company has categorized its investments that are recorded at fair value among levels as follows:

	September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	$ —	$ 380,176	$ —	$ 380,176
Non-U.S. government	—	396,288	—	396,288
Corporate	—	1,939,022	564	1,939,586
Municipal	—	20,568	—	20,568
Residential mortgage-backed	—	124,353	—	124,353
Commercial mortgage-backed	—	137,161	—	137,161
Asset-backed	—	55,156	—	55,156
Equities	92,955	4,825	3,292	101,072
Other investments	—	201,499	188,229	389,728
Total investments	$ 92,955	$ 3,259,048	$ 192,085	$3,544,088

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

	December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	$ —	$ 418,837	$ —	$ 418,837
Non-U.S. government	—	380,778	—	380,778
Corporate	—	1,967,724	519	1,968,243
Municipal	—	25,416	—	25,416
Residential mortgage-backed	—	110,785	—	110,785
Commercial mortgage-backed	—	86,694	—	86,694
Asset-backed	—	62,201	—	62,201
Equities	82,381	4,625	2,975	89,981
Other investments	—	54,537	137,727	192,264
Total investments	$ 82,381	$ 3,111,597	$ 141,221	$3,335,199

During 2012 and 2011, the Company had no transfers between Levels 1 and 2.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended September 30, 2012:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2012	$ 562	$181,740	$ 3,310	$185,612
Purchases	—	7,084	—	7,084
Sales	—	(1,171)	—	(1,171)
Net realized and unrealized gains (losses) through earnings	2	576	(18)	560
Net transfers into and/or (out of) Level 3	—	—	—	—
Level 3 investments as of September 30, 2012	$ 564	$188,229	$ 3,292	$192,085

The amount of net gains (losses) for the three months ended September 30, 2012 included in earnings attributable to the fair value of changes in assets still held at September 30, 2012 was $0.3 million. All of this amount was included in net realized and unrealized gains (losses).

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended September 30, 2011:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2011	$ 552	$148,840	$ 4,431	$153,823
Purchases	—	2,196	—	2,196
Sales	—	(62)	—	(62)
Net realized and unrealized losses through earnings	(42)	(1,501)	(731)	(2,274)
Net transfers into and/or (out of) Level 3	—	—	—	—
Level 3 investments as of September 30, 2011	$ 510	$149,473	$ 3,700	$153,683

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

The amount of net gains (losses) for the three months ended September 30, 2011 included in earnings attributable to the fair value of changes in assets still held at September 30, 2011 was $(0.3) million. All of this amount was included in net realized and unrealized gains (losses).

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the nine months ended September 30, 2012:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2012	$ 519	$137,727	$ 2,975	$141,221
Purchases	—	57,246	—	57,246
Sales	—	(14,335)	—	(14,335)
Net realized and unrealized gains through earnings	45	7,591	317	7,953
Net transfers into and/or (out of) Level 3	—	—	—	—
Level 3 investments as of September 30, 2012	$ 564	$188,229	$ 3,292	$192,085

The amount of net gains (losses) for the nine months ended September 30, 2012 included in earnings attributable to the fair value of changes in assets still held at September 30, 2012 was $8.1 million. All of this amount was included in net realized and unrealized gains (losses).

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the nine months ended September 30, 2011:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2011	$ 1,444	$132,435	$ 3,575	$137,454
Purchases	—	12,760	—	12,760
Sales	(1,043)	(1,728)	—	(2,771)
Net realized and unrealized gains through earnings	109	6,006	125	6,240
Net transfers into and/or (out of) Level 3	—	—	—	—
Level 3 investments as of September 30, 2011	$ 510	$149,473	$ 3,700	$153,683

The amount of net gains (losses) for the nine months ended September 30, 2011 included in earnings attributable to the fair value of changes in assets still held at September 30, 2011 was $6.1 million. All of this amount was included in net realized and unrealized gains (losses).

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS — (cont'd)

Components of net realized and unrealized gains (losses) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross realized gains on available-for-sale securities	$ 3,735	$ 201	$ 5,209	$ 769
Gross realized losses on available-for-sale securities	(27)	(19)	(450)	(329)
Net realized gains on trading securities	3,824	1,317	12,684	4,463
Net unrealized gains (losses) on trading securities	13,059	(10,479)	25,382	(5,251)
Net unrealized gains on other investments	7,689	468	12,528	7,331
Net realized and unrealized gains (losses)	$ 28,280	$ (8,512)	$ 55,353	$ 6,983
Proceeds from sales and maturities of available-for-sale securities	$112,928	$ 70,583	$296,537	$332,560

Major categories of net investment income are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest from fixed maturities	$ 20,027	$ 20,765	$ 62,019	$ 52,471
Amortization of bond premiums and discounts	(6,208)	(7,710)	(22,634)	(16,717)
Dividends from equities	593	393	1,904	1,097
Interest from cash and cash equivalents and short-term investments	4,525	2,994	11,684	8,743
Interest on other receivables	1,027	871	6,242	4,971
Other income	733	1,378	4,091	2,723
Interest on deposits held with clients	377	317	988	1,013
Investment expenses	(1,416)	(510)	(3,299)	(1,196)
	$ 19,658	$ 18,498	$ 60,995	$ 53,105

Restricted Investments

The Company is required to maintain investments on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The investments in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of the Company's restricted investments as of September 30, 2012 and December 31, 2011 was as follows:

	September 30, 2012	December 31, 2011
Assets used for collateral in trust for third-party agreements	$ 482,699	$ 571,041
Deposits with regulatory authorities	196,799	200,136
Others	54,643	59,763
	$ 734,141	$ 830,940

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents were $289.1 million and $373.2 million as of September 30, 2012 and December 31, 2011, respectively. The restricted cash and cash equivalents are used as collateral against letters of credit and as guarantees under trust agreements. Letters of credit are issued to ceding insurers as security for the obligations of insurance subsidiaries under reinsurance agreements with those ceding insurers.

6. DERIVATIVE INSTRUMENTS

The Company uses foreign currency forward exchange contracts as part of its overall foreign currency risk management strategy or to obtain exposure to a particular financial market and for yield enhancement. These derivatives were not designated as hedging investments.

The following table sets out the foreign exchange forward contracts outstanding as at September 30, 2012 and the estimated fair value of derivative instruments recorded on the balance sheet:

Foreign Exchange Forward Contract	Contract Date	Settlement Date	Contract Amount	Settlement Amount	Fair Value as at September 30, 2012
Australian dollar	February 8, 2012	December 19, 2012	AU$25.0 million	$26,165	$ 167
Australian dollar	February 8, 2012	May 10, 2013	AU$35.0 million	36,099	(297)
British pound	March 6, 2012	March 6, 2013	UKP17.0 million	26,611	(841)
				$88,875	($ 971)

The Company recognized in net earnings for the three and nine months ended September 30, 2012, a foreign exchange loss of $1.7 million and $1.0 million, respectively, on the foreign currency forward exchange contracts.

In October 2010, the Company entered into a foreign currency forward exchange contract where it sold AU$45.0 million for $42.5 million with a contract settlement date of June 30, 2011. The Company recognized in net earnings for the three and nine months ended September 30, 2011 a foreign exchange loss of $nil and $1.9 million, respectively, on this foreign currency forward exchange contract.

On August 23, 2011, the Company entered into a foreign currency forward exchange contract where it sold AU$35.0 million for $37.0 million. On September 22, 2011, the Company effectively closed out the contract by entering into a forward contract with the same settlement date of December 2, 2011, pursuant to which it bought AU$35.0 million for $34.0 million. The Company recognized in net earnings, for both the three and nine months ended September 30, 2011, a net foreign exchange gain of $3.0 million on the foreign currency forward exchange contracts.

7. REINSURANCE BALANCES RECOVERABLE

	September 30, 2012	December 31, 2011
Recoverable from reinsurers on:		
Outstanding losses	$ 586,134	$ 837,693
Losses incurred but not reported	515,435	678,437
Fair value adjustments	(96,997)	(133,127)
Total reinsurance reserves recoverable	1,004,572	1,383,003
Paid losses recoverable	241,735	406,579
	$1,246,307	$1,789,582

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. REINSURANCE BALANCES RECOVERABLE — (cont'd)

The Company's acquired reinsurance subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. The Company's reinsurance subsidiaries remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, the Company evaluates and monitors concentration of credit risk among its reinsurers. Provisions are made for amounts considered potentially uncollectible.

As of September 30, 2012 and December 31, 2011, we had total reinsurance balances recoverable of $1.25 billion and $1.79 billion, respectively. The decrease of $543.3 million in total reinsurance balances recoverable was primarily as a result of commutations and cash collections made during the nine months ended September 30, 2012. At September 30, 2012 and December 31, 2011, the provision for uncollectible reinsurance recoverable relating to total reinsurance balances recoverable was $344.9 million and $341.1 million, respectively. To estimate the provision for uncollectible reinsurance recoverable, the reinsurance balances recoverable are first allocated to applicable reinsurers. This determination is based on a detailed process, although management judgment is involved. As part of this process, ceded incurred but not reported ("IBNR") reserves are allocated by reinsurer. The ratio of the provision for uncollectible reinsurance recoverable to total reinsurance balances recoverable (excluding provision for uncollectible reinsurance recoverable) as of September 30, 2012 increased to 21.7% as compared to 16.0% as of December 31, 2011, primarily as a result of commutations and the collection of reinsurance balances recoverable against which there were minimal provisions for uncollectible reinsurance recoverable.

The fair value adjustment, determined on acquisition of reinsurance subsidiaries, was based on the estimated timing of loss and loss adjustment expense recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the reinsurance recoverables acquired plus a spread to reflect credit risk, and is amortized over the estimated recovery period using the constant yield method, as adjusted for accelerations in timing of payments as a result of commutation settlements.

At September 30, 2012, the Company's top ten reinsurers accounted for 68.0% (December 31, 2011: 70.0%) of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) and included $374.2 million of IBNR reserves recoverable (December 31, 2011: $451.3 million). With the exception of one BBB+ rated reinsurer from which $44.9 million was recoverable, the other top ten reinsurers, as at September 30, 2012, were all rated A+ or better. As at December 31, 2011, with the exception of one BBB+ rated reinsurer from which $55.2 million was recoverable, the other top ten reinsurers were all rated A+ or better. Reinsurance recoverables by reinsurer were as follows:

	September 30, 2012		December 31, 2011	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top ten reinsurers	$ 846,960	68.0%	$1,252,929	70.0%
Other reinsurers' balances > $1 million	394,707	31.6%	532,303	29.7%
Other reinsurers' balances < $1 million	4,640	0.4%	4,350	0.3%
Total	$1,246,307	100.0%	$1,789,582	100.0%

As at September 30, 2012 and December 31, 2011, reinsurance balances recoverable with a carrying value of $208.1 million and $235.8 million, respectively, were associated with one reinsurer, which represented 10% or more of total reinsurance balances receivable. Of the $208.1 million receivable from the reinsurer as at September 30, 2012, $151.7 million is secured by a trust fund held for the benefit of the Company's reinsurance subsidiaries. As at September 30, 2012, the reinsurer had a credit rating of A+, as provided by a major rating agency. In the event that all or any of the reinsuring companies that have not secured their obligations are unable to meet their obligations under existing reinsurance agreements, the Company's reinsurance subsidiaries will be liable for such defaulted amounts.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOSSES AND LOSS ADJUSTMENT EXPENSES

	September 30, 2012	December 31, 2011
Outstanding	$2,063,708	$2,549,648
Incurred but not reported	1,888,124	2,110,299
Fair value adjustment	(312,827)	(377,031)
	$3,639,005	$4,282,916

Refer to Note 10 of Item 8 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for more information on establishing reserves.

Loss and loss adjustment expenses decreased by $643.9 million in the nine months ended September 30, 2012 primarily as a result of claim settlements, commutations and reserve reviews, partially offset by loss reserves assumed and acquired of $80.5 million.

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended September 30, 2012 and 2011. Losses incurred and paid are reflected net of reinsurance balances recoverable.

	Three Months Ended September 30,	
	2012	2011
Balance as at July 1	$3,810,331	$3,267,341
Less: total reinsurance reserves recoverable	1,064,854	556,374
	2,745,477	2,710,967
Effect of exchange rate movement	12,003	(39,038)
Net reduction in ultimate loss and loss adjustment expense liabilities	(62,547)	(50,114)
Net losses paid	(79,903)	(73,941)
Acquired on purchase of subsidiaries	—	600,045
Retroactive reinsurance contracts assumed	19,403	40,660
Net balance as at September 30	2,634,433	3,188,579
Plus: total reinsurance reserves recoverable	1,004,572	1,551,262
Balance as at September 30	$3,639,005	$4,739,841

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2012 and 2011 was due to the following:

	Three Months Ended September 30,	
	2012	2011
Net losses paid	$ (79,903)	$(73,941)
Net change in case and LAE reserves	104,881	99,447
Net change in IBNR	33,528	16,961
Reduction in estimates of net ultimate losses	58,506	42,467
Reduction in provisions for bad debt	—	2,399
Reduction in provisions for unallocated loss adjustment expense liabilities	12,579	14,113
Amortization of fair value adjustments	(8,538)	(8,865)
Net reduction in ultimate loss and loss adjustment expense liabilities	$ 62,547	$ 50,114

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOSSES AND LOSS ADJUSTMENT EXPENSES — (cont'd)

Net change in case and loss adjustment expense reserves ("LAE reserves") comprises the movement during the quarter in specific case reserve liabilities as a result of claims settlements or changes advised to the Company by its policyholders and attorneys and the Company's review of historic case reserves, less changes in case reserves recoverable advised by the Company to its reinsurers as a result of the settlement or movement of assumed claims. Net change in IBNR reserves represents the change in the Company's actuarial estimates of losses incurred but not reported.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2012 of $62.5 million was attributable to a reduction in estimates of net ultimate losses of $58.5 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $12.6 million, relating to 2012 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $8.5 million.

The reduction in estimates of net ultimate losses of $58.5 million, comprised of net favorable incurred loss development of $25.0 million and reductions in IBNR reserves of $33.5 million, related primarily to:

(i) the conclusion of the Company's annual review of historic case reserves for eleven of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,400 advised case reserves with an aggregate value of $27.6 million;

(ii) an aggregate reduction in IBNR reserves of $9.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in twelve of the Company's insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2012, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts. The Company, in conjunction with its independent actuaries, completed an actuarial review of the loss reserves for twelve of its most seasoned insurance and reinsurance subsidiaries as at September 30, 2012; and

(iii) a reduction in estimates of net ultimate losses of $21.2 million following the completion of two commutations and four policy buy-backs and settlements of assumed reinsurance liabilities.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2011 of $50.1 million was attributable to a reduction in estimates of net ultimate losses of $42.5 million, a reduction in provisions for bad debt of $2.4 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $14.1 million, relating to 2011 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $8.9 million.

The reduction in estimates of net ultimate losses of $42.5 million for the three months ended September 30, 2011, comprised of net favorable incurred loss development of $25.5 million and reductions in IBNR reserves of $17.0 million, related primarily to:

(i) the conclusion of the Company's annual review of historic case reserves for eleven of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 7,400 advised case reserves with an aggregate value of $30.5 million; and

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOSSES AND LOSS ADJUSTMENT EXPENSES — (cont'd)

(ii) an aggregate reduction in IBNR reserves of $10.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in eleven of the Company's insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2011, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts. The Company, in conjunction with its independent actuaries, completed an actuarial review of the loss reserves for eleven of its most seasoned insurance and reinsurance subsidiaries as at September 30, 2011.

The reduction in provisions for bad debt of $2.4 million for the three months ended September 30, 2011 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the nine months ended September 30, 2012 and 2011. Losses incurred and paid are reflected net of reinsurance balances recoverable.

	Nine Months Ended September 30,	
	2012	2011
Balance as at January 1	$4,282,916	$3,291,275
Less: total reinsurance reserves recoverable	1,383,003	525,440
	2,899,913	2,765,835
Effect of exchange rate movement	9,122	(5,686)
Net reduction in ultimate loss and loss adjustment expense liabilities	(141,730)	(88,501)
Net losses paid	(213,396)	(227,280)
Acquired on purchase of subsidiaries	—	610,484
Reserves acquired from loss portfolio transfers	58,721	—
Retroactive reinsurance contracts assumed	21,803	133,727
Net balance as at September 30	2,634,433	3,188,579
Plus: total reinsurance reserves recoverable	1,004,572	1,551,262
Balance as at September 30	$3,639,005	$4,739,841

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2012 and 2011 was due to the following:

	Nine Months Ended September 30,	
	2012	2011
Net losses paid	$(213,396)	$(227,280)
Net change in case and LAE reserves	272,837	247,951
Net change in IBNR	60,780	52,237
Reduction in estimates of net ultimate losses	120,221	72,908
Reduction in provisions for bad debt	2,782	4,071
Reduction in provisions for unallocated loss adjustment expense liabilities	37,092	37,433
Amortization of fair value adjustments	(18,365)	(25,911)
Net reduction in ultimate loss and loss adjustment expense liabilities	$ 141,730	$ 88,501

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOSSES AND LOSS ADJUSTMENT EXPENSES — (cont'd)

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2012 of $141.7 million was attributable to a reduction in estimates of net ultimate losses of $120.2 million, a reduction in provisions for bad debt of $2.8 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $37.1 million, relating to 2012 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $18.4 million.

The reduction in estimates of net ultimate losses of $120.2 million for the nine months ended September 30, 2012, comprised of net favorable incurred loss development of $59.4 million and reductions in IBNR reserves of $60.8 million, related primarily to:

(i) the conclusion of the Company's annual review of historic case reserves for eleven of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,400 advised case reserves with an aggregate value of $27.6 million;

(ii) an aggregate reduction in IBNR reserves of $9.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in twelve of the Company's most seasoned insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2012, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts; and

(iii) a reduction in estimates of net ultimate losses of $82.9 million following the completion of eight commutations and four policy buy-backs and settlements of assumed reinsurance liabilities, including one of the Company's largest ten policyholder exposures as at January 1, 2012, and two commutations of ceded reinsurance recoverables, one of which was among the Company's largest ten reinsurance recoverable balances as at January 1, 2012.

The reduction in provisions for bad debt of $2.8 million for the nine months ended September 30, 2012 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2011 of $88.5 million was attributable to a reduction in estimates of net ultimate losses of $72.9 million, a reduction in provisions for bad debt of $4.1 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $37.4 million, relating to 2011 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $25.9 million.

The reduction in estimates of net ultimate losses of $72.9 million for the nine months ended September 30, 2011, comprised of net favorable incurred loss development of $20.7 million and reductions in IBNR reserves of $52.2 million, related primarily to:

(i) the conclusion of the Company's annual review of historic case reserves for eleven of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 7,400 advised case reserves with an aggregate value of $30.5 million; and

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LOSSES AND LOSS ADJUSTMENT EXPENSES — (cont'd)

(ii) an aggregate reduction in IBNR reserves of $38.7 million as a result of the completion of two commutations of the Company's largest ten exposures and the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in eleven of the Company's most seasoned insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2011, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts.

The reduction in provisions for bad debt of $4.1 million for the nine months ended September 30, 2011 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

9. LOANS PAYABLE

The Company's long-term debt consists of loan facilities used to partially finance certain of the Company's acquisitions or significant new business transactions along with loans outstanding in relation to the share repurchase agreements (the "Repurchase Agreements") entered into with three of its executives and certain trusts and a corporation affiliated with the executives. The Company's two outstanding credit facilities (its EGL Revolving Credit Facility and its term facility related to the Company's 2011 acquisition of Clarendon National Insurance Company (the "Clarendon Facility")), as well as the Repurchase Agreements, are described in Note 11 to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

On June 29, 2012, the Company fully repaid the outstanding principal and accrued interest of $118.0 million on its EGL Revolving Credit Facility. As of September 30, 2012, the unused portion of the EGL Revolving Credit Facility was $250.0 million.

As of September 30, 2012, all of the covenants relating to the two credit facilities were met.

Total amounts of loans payable outstanding, including accrued interest, as of September 30, 2012 and December 31, 2011 totaled $127.2 million and $242.7 million, respectively, and were comprised as follows:

Facility	Date of Facility	September 30, 2012	December 31, 2011
EGL Revolving Credit Facility	June 30, 2011	$ —	$ 115,875
Clarendon Facility	July 12, 2011	106,500	106,500
Total long-term bank debt		106,500	222,375
Repurchase Agreements	October 1, 2010	18,667	18,667
Accrued interest on loans payable		1,991	1,668
Total loans payable		$ 127,158	$ 242,710

The final repayment of principal and accrued interest under the Repurchase Agreements is payable on December 1, 2012.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. EMPLOYEE BENEFITS

The Company's share-based compensation plans provide for the grant of various awards to its employees and to members of the Board of Directors. These are described in Note 14 to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The information below includes both the employee and director components of the Company's share-based compensation.

(a) Employee share plans

Employee share awards for the nine months ended September 30, 2012 are summarized as follows:

	Number of Shares	Weighted Average Fair Value of the Award
Nonvested — January 1	203,930	$ 20,026
Granted	4,363	$ 359
Vested	(47,649)	$ (4,623)
Nonvested — September 30	160,644	$ 16,008

(i) 2006-2010 Annual Incentive Compensation Program, 2011-2015 Annual Incentive Compensation Program and 2006 Equity Incentive Plan

For the nine months ended September 30, 2012 and 2011, 191 and 16,328 shares, respectively, were awarded to directors, officers and employees under the 2006 Equity Incentive Plan. The total value of the awards for the nine months ended September 30, 2012 was less than $0.1 million and was charged against the Enstar Group Limited 2011-2015 Annual Incentive Compensation Program (the "2011 Program") accrual established for the year ended December 31, 2011. The total value of the awards for the nine months ended September 30, 2011 was $1.5 million and was charged against the 2006-2010 Annual Incentive Compensation Program (the "2006 Program") accrual established for the year ended December 31, 2010. The 2006 Program ended effective December 31, 2010. On February 23, 2011, the Company adopted the 2011 Program.

In addition, for the nine months ended September 30, 2011, 50,000 restricted shares were awarded under the 2006 Equity Incentive Plan. The total unrecognized compensation cost related to the Company's non-vested share awards as at September 30, 2012 and 2011 was $8.3 million and $11.1 million, respectively. This cost is expected to be recognized evenly over the next 3.2 years. Compensation costs of $0.7 million and $2.1 million relating to these share awards were recognized in the Company's statement of earnings for the three and nine months ended September 30, 2012, respectively, as compared to $0.7 million and $2.0 million, respectively, for the three and nine months ended September 30, 2011.

The accrued expense relating to the 2011 Program for the three and nine months ended September 30, 2012 was $8.6 million and $17.5 million, respectively, as compared to $2.1 million and $4.0 million, respectively, for three and nine months ended September 30, 2011 relating to the 2006 Program.

(ii) Enstar Group Limited Employee Share Purchase Plan

Compensation costs of less than $0.1 million relating to the shares issued under the Amended and Restated Enstar Group Limited Employee Share Purchase Plan have been recognized in the Company's statement of earnings for the three and nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, 4,172 and 3,977 shares, respectively, were issued to employees.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. EMPLOYEE BENEFITS — (cont'd)

(b) Options

	Number of Shares	Weighted Average Exercise Price	Intrinsic Value of Shares
Outstanding — January 1, 2012	98,075	$ 40.78	$5,631
Exercised	—	—	—
Outstanding — September 30, 2012	98,075	$ 40.78	$5,773

Stock options outstanding and exercisable as of September 30, 2012 were as follows:

Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$40.78	98,075	$ 40.78	0.9

On November 2, 2012, the remaining outstanding stock options were fully exercised.

(c) Deferred Compensation and Stock Plan for Non-Employee Directors

For the nine months ended September 30, 2012 and 2011, 2,360 and 3,388 restricted share units, respectively, were credited to the accounts of non-employee directors under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors. The Company recorded director fee expenses for the three and nine months ended September 30, 2012 of $0.1 million and $0.2 million, respectively, as compared to $0.1 million and $0.3 million for three and nine months ended September 30, 2011, respectively.

(d) Pension plan

The Company provides pension benefits to eligible employees through various plans sponsored by the Company. All pension plans are structured as defined contribution plans, except for the PWAC Plan discussed below. Pension expense for the three and nine months ended September 30, 2012 was $0.2 million and $3.1 million, respectively, as compared to $1.0 million and $3.2 million, respectively, for three and nine months ended September 30, 2011.

The Company acquired, as part of its 2010 acquisition of PW Acquisition Company ("PWAC"), a noncontributory defined benefit pension plan (the "PWAC Plan") that covers substantially all PWAC employees hired before April 1, 2003 and provides pension and certain death benefits. Effective April 1, 2004, PWAC froze the PWAC Plan. As at September 30, 2012 and December 31, 2011, PWAC had an accrued liability of $9.6 million and $10.5 million, respectively, for the unfunded PWAC Plan liability.

The Company recorded pension expense relating to the PWAC Plan, for the three and nine months ended September 30, 2012, of $0.2 million and $0.5 million, respectively, as compared to $0.2 million and $0.5 million, respectively, for the three and nine months ended September 30, 2011.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 47,716	$ 12,064	$ 98,111	$ 24,942
Weighted average ordinary shares outstanding — basic	16,437,780	14,270,003	16,433,943	13,743,191
Net earnings per ordinary share attributable to Enstar Group Limited — basic	$ 2.90	$ 0.85	$ 5.97	$ 1.81
Diluted earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 47,716	$ 12,064	$ 98,111	$ 24,942
Weighted average ordinary shares outstanding — basic	16,437,780	14,270,003	16,433,943	13,743,191
Share equivalents:				
Nonvested shares	160,644	203,930	163,062	194,223
Restricted share units	15,046	19,594	14,263	16,854
Options	63,059	65,637	63,088	70,876
Weighted average ordinary shares outstanding — diluted	16,676,529	14,559,164	16,674,356	14,025,144
Net earnings per ordinary share attributable to Enstar Group Limited — diluted	$ 2.86	$ 0.83	$ 5.88	$ 1.78

12. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with companies and partnerships that are affiliated with J. Christopher Flowers. Mr. Flowers was one of the Company's largest shareholders until May 2012, and until May 6, 2011 was a member of the Company's Board of Directors.

As at September 30, 2012, investments associated with Mr. Flowers accounted for 92.0% of the total unfunded capital commitments of the Company and 40.3% of the total amount of investments classified as other investments by the Company. The table below summarizes the Company's related party investments with affiliates of Mr. Flowers.

	September 30, 2012 Unfunded Commitment	December 31, 2011 Unfunded Commitment	September 30, 2012 Fair Value	December 31, 2011 Fair Value
J.C. Flowers II L.P.	$ 2,218	$ 2,220	$ 21,972	$ 22,458
J.C. Flowers III L.P.	56,482	69,247	41,026	35,780
JCF III Co-invest I L.P.	—	—	22,922	23,334
New NIB Partners L.P.	—	—	18,736	20,521
Varadero International Ltd.	—	—	52,322	24,395
Total	$ 58,700	$ 71,467	$ 156,978	$ 126,488

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. RELATED PARTY TRANSACTIONS — (cont'd)

As of September 30, 2012 and December 31, 2011, the Company included $224.4 million and $221.8 million, respectively, as part of noncontrolling interest on its balance sheet relating to five companies acquired in 2008 in which J.C. Flowers II L.P. co-invested.

On January 1, 2012, Lloyd's Syndicate 2008 ("S2008") transferred the assets and liabilities relating to its 2009 and prior underwriting years of account into its 2010 underwriting year of account by means of a reinsurance to close transaction ("RITC"). Following the transfer, the existing noncontrolling interest held by JCF FPK I L.P. and J.C. Flowers II L.P. ceased, resulting in the Company now providing 100% of the investment in S2008. As at September 30, 2012, $28.1 million payable by the Company in respect of noncontrolling interest related to this RITC transaction has been included in the Company's balance sheet as part of accounts payable and accrued liabilities.

13. TAXATION

Earnings before income taxes include the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Domestic (Bermuda)	$ (5,939)	$ (6,519)	$ 11,841	$(22,970)
Foreign	76,131	33,003	130,255	71,134
Total	$70,192	$26,484	$142,096	$ 48,164

Tax expense for income taxes is comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Current:				
Domestic (Bermuda)	$ —	$ —	$ —	$ —
Foreign	13,397	1,905	22,842	5,928
	13,397	1,905	22,842	5,928
Deferred:				
Domestic (Bermuda)	—	—	—	—
Foreign	1,303	2,531	7,505	100
	1,303	2,531	7,505	100
Total tax expense	$14,700	$4,436	$30,347	$6,028

Under current Bermuda law, the Company and its Bermuda subsidiaries are exempted from paying any taxes in Bermuda on their income or capital gains until March 2035.

The Company has operating subsidiaries and branch operations in the United Kingdom, Australia, the United States and Europe and is subject to federal, foreign, state and local taxes in those jurisdictions. In addition, certain distributions from some foreign sources may be subject to withholding taxes.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. TAXATION — (cont'd)

The expected income tax provision for the foreign operations computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate.

The actual income tax rate differed from the amount computed by applying the effective rate of 0% under Bermuda law to earnings before income taxes as shown in the following reconciliation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Earnings before income tax	$ 70,192	$ 26,484	$ 142,096	$ 48,164
Expected tax rate	0.0 %	0.0 %	0.0 %	0.0 %
Foreign taxes at local expected rates	26.1 %	33.9 %	24.4 %	38.2 %
Change in uncertain tax positions	0.1 %	(0.2)%	0.1 %	0.3 %
Change in valuation allowance	(5.4)%	(18.1)%	(3.3)%	(24.7)%
Impact of Australian tax consolidation	0.0 %	0.0 %	0.0 %	(1.9)%
Other	0.1 %	1.1 %	0.2 %	0.7 %
Effective tax rate	20.9 %	16.7 %	21.4 %	12.6 %

The Company has estimated future taxable income of its foreign subsidiaries and has provided a valuation allowance in respect of those loss carryforwards where it does not expect to realize a benefit. The Company has considered all available evidence using a "more likely than not" standard in determining the amount of the valuation allowance.

The Company had unrecognized tax benefits of $5.8 million and $5.6 million relating to uncertain tax positions as of September 30, 2012 and December 31, 2011, respectively.

The Company's operating subsidiaries in specific countries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, the Company's major subsidiaries that operate in the United States, United Kingdom and Australia are no longer subject to tax examinations for years before 2005, 2008 and 2005, respectively.

Because the Company operates in many jurisdictions, its net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which it operates. The Company cannot predict what, if any, legislation, will actually be proposed or enacted, or what the effect of any such legislation might be on the Company's financial condition and results of operations.

14. COMMITMENTS AND CONTINGENCIES

On March 14, 2012, the Company eliminated a certain guarantee of its obligation to its wholly-owned subsidiary, Fitzwilliam, in respect of a letter of credit issued on its behalf by a London-based bank in the amount of £7.5 million (approximately $11.7 million) relating to Fitzwilliam's insurance contract requirements.

On June 26, 2012, the Company provided a limited parental guarantee supporting Fitzwilliam's obligation in respect of an amendment to an existing letter of credit issued on its behalf by a London-based bank in the amount of approximately $11.2 million relating to Fitzwilliam's insurance contract requirements.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. COMMITMENTS AND CONTINGENCIES — (cont'd)

As at September 30, 2012 and December 31, 2011, the Company had, in total, parental guarantees supporting Fitzwilliam's obligations in the amount of $231.0 million and $219.9 million, respectively.

As at September 30, 2012, the Company has funded $0.8 million of its total $5.0 million commitment to Dowling Capital Partners I, L.P.

The Company has entered into definitive agreements with respect to: (i) the SeaBright Merger, which is expected to close in the fourth quarter of 2012 or the first quarter of 2013; (ii) the Reciprocal of America loss portfolio transfer, which is expected to close in the first quarter of 2013; and (iii) the purchase of all of the shares of HLIC DE and HSBC DE, which is expected to close by the end of the first quarter of 2013. The SeaBright Merger and HSBC agreements are described in Note 2 — "Acquisitions", and the Reciprocal of America agreement is described in Note 3 — "Significant New Business".

In connection with the Company's definitive agreement to acquire SeaBright, two purported class action lawsuits were filed against SeaBright, the members of its board of directors, the Company's merger subsidiary (AML Acquisition, Corp.) and, in one of the cases, the Company. The first suit was filed September 13, 2012 in the Superior Court of the State of Washington and the second suit was filed September 20, 2012 in the Court of Chancery of the State of Delaware. The lawsuits allege, among other things, that SeaBright's directors breached their fiduciary duties when negotiating, approving and seeking stockholder approval of the Merger, and that SeaBright and the Company aided and abetted the alleged breaches of fiduciary duties. In the suits, plaintiffs sought to enjoin defendants from taking any action to consummate the transactions contemplated by the Merger Agreement, as well as monetary damages, including attorneys' fees and expenses. The Company believes these suits are without merit. Nevertheless, in order to avoid the potential cost and distraction of continued litigation and to eliminate any risk of delay to the closing of the Merger, the Company, SeaBright and the SeaBright director defendants have agreed in principle to settle the two lawsuits, without admitting any liability or wrongdoing. The settlement requires SeaBright to make supplemental information available to its stockholders through a filing of a Current Report on Form 8-K with the U.S. Securities and Exchange Commission. The settlement will not change the amount of the Merger Consideration that the Company will pay to SeaBright's stockholders in any way, nor will it alter any deal terms or affect the timing of the November 19, 2012 SeaBright stockholder meeting (at which stockholders will vote on whether to approve the Merger). The settlement is subject to execution and delivery of definitive documentation, the closing of the Merger, approval by the Washington court of the settlement and approval by the Delaware court of dismissal of the Delaware suit. If the settlement becomes effective, both lawsuits will be dismissed.

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. The Company does not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on its business, results of operations or financial condition. Nevertheless, there can be no assurance that such pending legal proceedings will not have a material effect on the Company's business, financial condition or results of operations. The Company anticipates that, similar to the rest of the insurance and reinsurance industry, it will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental claims. There can be no assurance that any such future litigation will not have a material effect on the Company's business, financial condition or results of operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of Enstar Group Limited

We have reviewed the condensed consolidated balance sheet of Enstar Group Limited and subsidiaries as of September 30, 2012, the related condensed consolidated statements of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2012, and the related condensed consolidated statements of changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2012. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

The consolidated financial statements of the Company as of and for the year ended December 31, 2011, were audited by other accountants whose report dated February 24, 2012, expressed an unqualified opinion on those consolidated financial statements. Such consolidated financial statements were not audited by us and, accordingly, we do not express an opinion or any form of assurance on the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011. Additionally, the condensed consolidated statements of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2011, and the related statements of changes in shareholders' equity and cash flows for the nine-month period ended September 30, 2011, were not reviewed or audited by us, and accordingly, we do not express an opinion or any form of assurance on them.

/s/ KPMG Audit Limited

Hamilton, Bermuda
November 8, 2012

Item 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following is a discussion and analysis of our results of operations for the three and nine months ended September 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Business Overview

Enstar Group Limited, or Enstar, was formed in August 2001 under the laws of Bermuda to acquire and manage insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry.

Since our formation, we have, as of September 30, 2012, completed the acquisition of 35 insurance and reinsurance companies and 18 portfolios of insurance and reinsurance business and are now administering those businesses in run-off. Of the 18 portfolios of insurance and reinsurance business, 10 were Reinsurance to Close, or "RITC" transactions, with Lloyd's of London insurance and reinsurance syndicates in run-off, whereby the portfolio of run-off liabilities is transferred from one Lloyd's syndicate to another. Insurance and reinsurance companies and portfolios of insurance and reinsurance business we acquire that are in run-off no longer underwrite new policies. We derive our net earnings from the ownership and management of these companies and portfolios of business in run-off primarily by settling insurance and reinsurance claims below the acquired value of loss reserves and from returns on the portfolio of investments retained to pay future claims. In addition, we provide management and consultancy services, claims inspection services and reinsurance collection services to our affiliates and third-party clients for both fixed and success-based fees.

Our primary corporate objective is to grow our net book value per share. We believe growth in our net book value is driven primarily by growth in our net earnings, which is in turn driven in large part by successfully completing new acquisitions and effectively managing companies and portfolios of business that we previously acquired.

Acquisitions

SeaBright

On August 27, 2012, we, AML Acquisition, Corp., or AML, our wholly-owned subsidiary, and SeaBright Holdings, Inc., or SeaBright, entered into an Agreement and Plan of Merger, or the Merger Agreement, providing for the merger of AML with and into SeaBright, or the Merger, with SeaBright surviving the Merger as our indirect, wholly-owned subsidiary. SeaBright owns SeaBright Insurance Company, an Illinois domiciled insurer that is commercially domiciled in California. The Company expects to pay the aggregate purchase price of approximately $252.2 million through a combination of cash on hand and a bank loan facility to be finalized before closing.

At the effective date of the Merger, each outstanding share of SeaBright common stock (other than shares held by SeaBright in treasury or held by stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law) will be automatically cancelled and converted into the right to receive $11.11 in cash, without interest, or the Merger Consideration. Each outstanding option to purchase shares of SeaBright common stock will fully vest at the effective date of the Merger and be cancelled and converted into the right to receive the Merger Consideration less the per share exercise price of the option. Each outstanding share of SeaBright restricted stock and each SeaBright restricted stock unit will fully vest at the effective time and be cancelled and converted into the right to receive the Merger Consideration. Consummation of the Merger is subject to certain conditions, including the adoption of the Merger Agreement by SeaBright's stockholders, receipt of certain regulatory approvals and certain other customary closing conditions. The transaction is expected to close in the fourth quarter of 2012 or the first quarter of 2013.

HSBC

On September 6, 2012, we and our wholly-owned subsidiary, Pavonia Holdings (US), Inc., or Pavonia, entered into a definitive agreement for the purchase of all of the shares of Household Life Insurance Company of Delaware, or HLIC DE, and HSBC Insurance Company of Delaware, or HSBC DE, from Household Insurance Group Holding Company, an affiliate of HSBC Holdings plc. HLIC DE and HSBC DE are both Delaware domiciled insurers in run-off. HLIC DE owns three other insurers domiciled in Michigan, New York, and Arizona, respectively, all of which will be in run-off at the time the transaction closes. The companies to be acquired have written various U.S. and Canadian life insurance, including credit insurance, term life insurance, assumed reinsurance, corporate owned life insurance, and annuities.

The base purchase price of approximately $181.0 million will be adjusted under the terms of the stock purchase agreement based upon changes to the capital and surplus of the acquired entities arising from the operation of the business prior to closing. We expect to finance the purchase price through a combination of cash on hand and a drawing under our Revolving Credit Facility with National Australia Bank Limited and Barclays Corporate, or the EGL Revolving Credit Facility. We are a party to the acquisition agreement and have guaranteed the performance by Pavonia of its obligations thereunder. Completion of the transaction is conditioned on, among other things, governmental and regulatory approvals and satisfaction of various customary closing conditions. The transaction is expected to close by the end of the first quarter of 2013.

Significant New Business

Zurich Danish Portfolio

On June 30, 2012, we, through the Danish branch of our wholly-owned subsidiary, Marlon Insurance Company Limited, or Marlon, acquired, by way of loss portfolio transfer under Danish law, a portfolio of reinsurance and professional disability business from the Danish branch of Zurich Insurance Company, or Zurich. After reflecting the final balances reported by Zurich, Marlon received total assets and liabilities of approximately $60.0 million.

Reciprocal of America

On July 6, 2012, we, through our wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers compensation business. The estimated total assets and liabilities to be assumed are approximately $174.0 million. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close in the first quarter of 2013.

Claremont

On August 6, 2012, we, through our wholly-owned subsidiary, Fitzwilliam Insurance Limited, or Fitzwilliam, entered into a novation agreement with another of our wholly-owned subsidiaries, Claremont Liability Insurance Company, or Claremont, and one of Claremont's reinsurers with respect to a quota share contract. Under the novation agreement, Fitzwilliam replaced the reinsurer on the quota share contract in exchange for total assets and liabilities of approximately $16.5 million.

Results of Operations

The following table sets forth our selected consolidated statement of earnings data for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands of U.S. dollars)			
INCOME				
Consulting fees	$ 1,944	$ 1,623	$ 5,913	$ 7,704
Net investment income	19,658	18,498	60,995	53,105
Net realized and unrealized gains (losses)	28,280	(8,512)	55,353	6,983
Gain on bargain purchase	—	—	—	13,105
	49,882	11,609	122,261	80,897
EXPENSES				
Net reduction in ultimate loss and loss adjustment expense liabilities:				
Reduction in estimates of net ultimate losses	(58,506)	(42,467)	(120,221)	(72,908)
Reduction in provisions for bad debt	—	(2,399)	(2,782)	(4,071)
Reduction in provisions for unallocated loss adjustment expense liabilities	(12,579)	(14,113)	(37,092)	(37,433)
Amortization of fair value adjustments	8,538	8,865	18,365	25,911
	(62,547)	(50,114)	(141,730)	(88,501)
Salaries and benefits	25,138	20,923	69,968	48,028
General and administrative expenses	14,409	20,759	43,423	66,720
Interest expense	1,713	2,435	5,886	6,098
Net foreign exchange losses (gains)	977	(8,878)	2,618	388
	(20,310)	(14,875)	(19,835)	32,733
Earnings before income taxes	70,192	26,484	142,096	48,164
Income taxes	(14,700)	(4,436)	(30,347)	(6,028)
NET EARNINGS	55,492	22,048	111,749	42,136
Less: Net earnings attributable to noncontrolling interest	(7,776)	(9,984)	(13,638)	(17,194)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 47,716	$ 12,064	$ 98,111	$ 24,942

Comparison of the Three Months Ended September 30, 2012 and 2011

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $55.5 million and $22.0 million for the three months ended September 30, 2012 and 2011, respectively. The increase in earnings of approximately $33.5 million was attributable primarily to the following:

(i) an increase in net realized and unrealized gains of $36.8 million due to mark-to-market changes in the market value of our other investments, along with an increase in net realized and unrealized gains on our fixed maturity investments classified as trading;

(ii) an increase in net reduction in ultimate loss and loss adjustment expense liabilities of $12.4 million; and

(iii) a decrease in general and administrative expenses of $6.4 million due primarily to decreased professional fees, principally related to decreased legal fees and settlement costs related to certain litigation settled in 2011, along with decreased arrangement and agency fees in connection with our term loan facility relating to our acquisition of Clarendon National Insurance Company, or the Clarendon Facility, which we entered into in 2011; partially offset by

(iv) an increase in income tax expense of $10.3 million due to higher net earnings within our taxable subsidiaries;

(v) a net foreign exchange loss of $1.0 million in the three months ended September 30, 2012, which was a $9.8 million decrease from the net foreign exchange gain in 2011; and

(vi) an increase in salaries and benefits costs of $4.2 million due primarily to an increase in the bonus accrual of $6.3 million for the three months ended September 30, 2012 as compared to 2011, partially offset by a decrease in staff costs due to a decrease in our overall headcount from 425 at September 30, 2011 to 393 at September 30, 2012.

Noncontrolling interest in earnings decreased by $2.2 million to $7.8 million for the three months ended September 30, 2012 as a result of lower earnings in those companies in which there are noncontrolling interests. Net earnings attributable to Enstar Group Limited increased by $35.6 million from $12.1 million for the three months ended September 30, 2011 to $47.7 million for the three months ended September 30, 2012.

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Three Months Ended September 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2012	2011	Variance	2012	2011	Variance
	(in thousands of U.S. dollars)			(in thousands of U.S. dollars)		
Total	$ 19,658	$ 18,498	$ 1,160	$ 28,280	$ (8,512)	$ 36,792

Net investment income (inclusive of realized and unrealized gains (losses)) for the three months ended September 30, 2012 increased by $37.9 million to $47.9 million, as compared to $10.0 million for the three months ended September 30, 2011.

During the three months ended September 30, 2012, our average cash and investments (excluding equities and other investments) were $3.94 billion as compared to $4.24 billion for the three months ended September 30, 2011. The return on our cash and fixed income investments (inclusive of net realized and unrealized gains (losses), but excluding net investment income and net realized and unrealized gains (losses) related to our other investments and equities) for the three months ended September 30, 2012 was 0.87% as compared to the return of 0.37% for the three months ended September 30, 2011. The increased return was largely due to realized gains during the three months ended September 30, 2012 on the sale of a number of our available-for-sale investments, combined with increases in unrealized gains on our fixed income portfolio as a result of spread compression, particularly in our structured credit and corporate bond positions.

The return on our other investments and equities (inclusive of net realized and unrealized gains (losses)) for the three months ended September 30, 2012 was 2.60% as compared to the return of (2.81)% for the three months ended September 30, 2011. The increased return is attributable to a combination of increases in unrealized gains on our equity holdings (including our equity fund holding), which benefitted from rising global equity markets during the quarter, and increases in the value of our fixed income funds within our other investments portfolio due to spread compression in the fixed income markets. We also benefitted from increased allocations to, and improved performance of, other investments and equities during the three months ended September 30, 2012, as compared to the same period in 2011.

The average credit rating of our fixed maturity investments for the three months ended September 30, 2012 and September 30, 2011 was AA-.

Net Reduction in Ultimate Loss and Loss Adjustment Expense Liabilities:

The following table shows the components of the movement in the net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30,	
	2012	2011
	(in thousands of U.S. dollars)	
Net losses paid	$ (79,903)	$(73,941)
Net change in case and LAE reserves	104,881	99,447
Net change in IBNR	33,528	16,961
Reduction in estimates of net ultimate losses	58,506	42,467
Reduction in provisions for bad debt	—	2,399
Reduction in provisions for unallocated loss adjustment expense liabilities	12,579	14,113
Amortization of fair value adjustments	(8,538)	(8,865)
Net reduction in ultimate loss and loss adjustment expense liabilities	$ 62,547	$ 50,114

Net change in case and loss adjustment expense reserves, or LAE reserves, comprises the movement during the quarter in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys and our review of historic case reserves, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims. Net change in incurred but not reported, or IBNR, reserves represents the change in our actuarial estimates of losses incurred but not reported.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2012 of $62.5 million was attributable to a reduction in estimates of net ultimate losses of $58.5 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $12.6 million, relating to 2012 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $8.5 million.

The reduction in estimates of net ultimate losses of $58.5 million, comprised of net favorable incurred loss development of $25.0 million and reductions in IBNR reserves of $33.5 million, related primarily to:

(i) the conclusion of our annual review of historic case reserves for eleven of our insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,400 advised case reserves with an aggregate value of $27.6 million;

(ii) an aggregate reduction in IBNR reserves of $9.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in twelve of our more seasoned insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2012, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts. We, in conjunction with our independent actuaries, completed an actuarial review of the loss reserves for twelve of our most seasoned insurance and reinsurance subsidiaries as at September 30, 2012; and

(iii) a reduction in estimates of net ultimate losses of $21.2 million following the completion of two commutations and four policy buy-backs and settlements of assumed reinsurance liabilities.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2011 of $50.1 million was attributable to a reduction in estimates of net ultimate losses of $42.5 million, a reduction in provisions for bad debt of $2.4 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $14.1 million, relating to 2011 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $8.9 million.

The reduction in estimates of net ultimate losses of $42.5 million for the three months ended September 30, 2011, comprised of net favorable incurred loss development of $25.5 million and reductions in IBNR reserves of $17.0 million, related primarily to:

(i) the conclusion of our annual review of historic case reserves for eleven of our insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 7,400 advised case reserves with an aggregate value of $30.5 million; and

(ii) an aggregate reduction in IBNR reserves of $10.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in eleven of our insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2011, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts. We, in conjunction with our independent actuaries, completed an actuarial review of the loss reserves for eleven of our most seasoned insurance and reinsurance subsidiaries as at September 30, 2011.

The reduction in provisions for bad debt of $2.4 million for the three months ended September 30, 2011 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended September 30, 2012 and 2011. Losses incurred and paid are reflected net of reinsurance balances recoverable.

	Three Months Ended September 30,	
	2012	2011
	(in thousands of U.S. dollars)	
Balance as at July 1	$ 3,810,331	$ 3,267,341
Less: total reinsurance reserves recoverable	1,064,854	556,374
	2,745,477	2,710,967
Effect of exchange rate movement	12,003	(39,038)
Net reduction in ultimate loss and loss adjustment expense liabilities	(62,547)	(50,114)
Net losses paid	(79,903)	(73,941)
Acquired on purchase of subsidiaries	—	600,045
Retroactive reinsurance contracts assumed	19,403	40,660
Net balance as at September 30	2,634,433	3,188,579
Plus: total reinsurance reserves recoverable	1,004,572	1,551,262
Balance as at September 30	$ 3,639,005	$ 4,739,841

Refer to "— Significant New Business — Claremont" for information regarding reserves acquired from retroactive reinsurance contracts assumed during the three months ended September 30, 2012.

Salaries and Benefits:

	Three Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$25,138	$20,923	$(4,215)

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were $25.1 million and $20.9 million for the three months ended September 30, 2012 and 2011, respectively.

The principal changes in salaries and benefits were:

(i) an increase in the bonus accrual of approximately $6.3 million for the three months ended September 30, 2012 as compared to 2011 (expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability); partially offset by

(ii) a decrease in staff costs due to a decrease in staff numbers from 425 at September 30, 2011 to 393 at September 30, 2012; and

(iii) a decrease in U.S. dollar costs of our U.K.-based staff following a decrease in the average British pound exchange rate from approximately 1.6096 for the three months ended September 30, 2011 to 1.5813 for the three months ended September 30, 2012. Of our total headcount for the three months ended September 30, 2011 and 2012, approximately 54% and 53% of salaries, respectively, were paid in British pounds.

General and Administrative Expenses:

	Three Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$14,409	$20,759	$ 6,350

General and administrative expenses decreased by $6.4 million during the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. The decrease in expenses for 2012 related primarily to:

(i) a decrease in bank costs of $2.6 million associated primarily with the arrangement and agency fees paid in connection with establishing the Clarendon Facility in 2011; and

(ii) a decrease of $2.4 million in professional and consulting fees due principally to decreased legal fees and settlement costs related to certain litigation settled in 2011.

Net Foreign Exchange Losses (Gains):

	Three Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$ 977	$(8,878)	$ (9,855)

We recorded net foreign exchange losses of $1.0 million and net foreign exchange gains of $8.9 million for the three months ended September 30, 2012 and 2011, respectively. The net foreign exchange losses for the three months ended September 30, 2012 arose primarily as a result of a decrease of $1.6 million in the fair value of our Australian dollar and British pound forward exchange contracts. On February 8, 2012, we entered into two foreign currency forward exchange contracts, pursuant to which we sold AU$25.0 million for $26.2 million and AU$35.0 million for $36.1 million. The contracts have settlement dates of December 19, 2012 and May 10, 2013, respectively. In addition, we entered into a British pound forward exchange contract pursuant to which we sold 17.0 million British pounds for $26.6 million. The contract has a settlement date of March 6, 2013.

The net foreign exchange gains for the three months ended September 30, 2011 arose primarily as a result of the holding of surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the U.S. dollar was appreciating against the Australian dollar, as well as the foreign exchange gains of $3.0 million realized on an Australian dollar forward exchange contract, which we entered into on August 23, 2011 and closed out on September 22, 2011.

In addition to the net foreign exchange losses recorded in our consolidated statement of earnings for the three months ended September 30, 2012, we recorded in our condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, of $2.8 million as compared to losses, net of noncontrolling interest, of $18.7 million for the same period in 2011. For the three months ended September 30, 2012, the currency translation adjustments related primarily to our Australia-based and Ireland-based subsidiaries. As the functional currency of these subsidiaries is Australian dollars and Euros, respectively, we are required to record any U.S. dollar gains or losses on the translation of their net Australian dollar or Euro assets through accumulated other comprehensive income.

Income Tax Expense:

	Three Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$14,700	$4,436	$(10,264)

We recorded income tax expense of $14.7 million and $4.4 million for the three months ended September 30, 2012 and 2011, respectively. The increase in taxes for the three months ended September 30, 2012 was due predominantly to higher overall net earnings in our taxable subsidiaries as compared to the same period in 2011.

Noncontrolling Interest:

	Three Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$7,776	$9,984	$ 2,208

We recorded a noncontrolling interest in earnings of $7.8 million and $10.0 million for the three months ended September 30, 2012 and 2011, respectively. The decrease for the three months ended September 30, 2012 in noncontrolling interest was due primarily to a decrease in earnings for those companies where there exists a noncontrolling interest. In addition, on January 1, 2012, Lloyd's Syndicate 2008, or S2008, transferred the assets and liabilities relating to its 2009 and prior underwriting years of account into its 2010 underwriting year of account by means of an RITC transaction. Following the transfer, the existing noncontrolling interest held by JCF FPK I L.P. and J.C. Flowers II L.P. ceased, resulting in us now providing 100% of the investment in S2008.

Comparison of the Nine Months Ended September 30, 2012 and 2011

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $111.7 million and $42.1 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in earnings of approximately $69.6 million was primarily attributable to the following:

(i) an increase in net reduction in ultimate loss and loss adjustment expense liabilities of $53.2 million;

(ii) an increase in net realized and unrealized gains of $48.4 million due to mark-to-market changes in the market value of our other investments, along with an increase in net realized and unrealized gains on our fixed maturity investments classified as trading;

(iii) a decrease in general and administrative expenses of $23.3 million due primarily to a decrease in professional fees, principally related to decreased legal fees and settlement costs related to certain litigation settled in 2011, along with decreased arrangement and agency fees related to both the Clarendon Facility and the EGL Revolving Credit Facility, both of which we entered into in 2011; and

(iv) an increase in net investment income of $7.9 million; partially offset by

(v) an increase in salaries and benefits costs of $21.9 million due primarily to an increase in the bonus accrual of $12.9 million for the nine months ended September 30, 2012 as compared to 2011, along with an increase in our overall average headcount from 362 to 402 for the nine months ended September 30, 2011 and 2012, respectively;

(vi) an increase in income tax expense of $24.3 million due in large part to higher net earnings within our taxable subsidiaries;

(vii) a gain on bargain purchase of $13.1 million in 2011, which arose in relation to our acquisition of Laguna Life Limited, or Laguna (as compared to no gain on bargain purchase in 2012); and

(viii) an increase in net foreign exchange losses of $2.2 million.

Noncontrolling interest in earnings decreased by $3.6 million to $13.6 million for the nine months ended September 30, 2012 as a result of lower earnings in those companies in which there are noncontrolling interests. Net earnings attributable to Enstar Group Limited increased by $73.2 million from $24.9 million for the nine months ended September 30, 2011 to $98.1 million for the nine months ended September 30, 2012.

Net Investment Income and Net Realized and Unrealized Gains:

	Nine Months Ended September 30,					
	Net Investment Income			Net Realized and Unrealized Gains		
	2012	2011	Variance	2012	2011	Variance
	(in thousands of U.S. dollars)					
Total	$60,995	$53,105	$ 7,890	$55,353	$6,983	$ 48,370

Net investment income (inclusive of net realized and unrealized gains) for the nine months ended September 30, 2012 increased by $56.3 million to $116.4 million, as compared to $60.1 million for the nine months ended September 30, 2011.

During the nine months ended September 30, 2012, our average cash and investments (excluding equities and other investments) were $4.10 billion as compared to $3.90 billion for the nine months ended September 30, 2011. The return on our cash and fixed income investments (inclusive of net realized and unrealized gains (losses), but excluding net investment income and net realized and unrealized gains (losses) related to our other investments and equities) for the nine months ended September 30, 2012 was 2.05% as compared to the return of 1.28% for the nine months ended September 30, 2011. The increased return was largely due to realized gains during the nine months ended September 30, 2012 on the sale of a number of our available-for-sale investments, combined with increases in unrealized gains on our fixed income portfolio as a result of spread compression, particularly in our structured credit and corporate bond positions. In addition, increases in average investment balances coupled with increases in yield earned resulted in higher investment income from cash and fixed income investments.

The return on our other investments and equities (inclusive of net realized and unrealized gains (losses)) for the nine months ended September 30, 2012 was 6.72% as compared to the return of 0.96% for the same period in 2011. The increased return is attributable to a combination of increases in unrealized gains on our equity holdings (including our equity fund holding), which benefitted from rising global equity markets during 2012, and increases in the value of our fixed income funds within our other investments portfolio due to spread compression in the fixed income markets. We also benefitted from increased allocations to, and improved performance of, other investments and equities during the nine months ended September 30, 2012, as compared to same period for 2011.

The average credit rating of our fixed maturity investments for the nine months ended September 30, 2012 and 2011 was AA-.

Gain on Bargain Purchase:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$ —	$13,105	$ (13,105)

Gain on bargain purchase of $13.1 million was recorded for the nine months ended September 30, 2011. The gain on bargain purchase was earned in connection with our acquisition of Laguna and represents the excess

of the aggregate fair value of net assets acquired of $34.3 million over the cost of $21.2 million. This excess was, in accordance with the provisions of the Business Combinations topic of the FASB Accounting Standards Codification 805, recognized as income for the nine months ended September 30, 2011. The gain on bargain purchase arose mainly as a result of our reassessment, upon acquisition, of the total required estimated costs to manage the business to expiry. Our assessment of costs was lower than the acquired costs recorded by the vendor in the financial statements of Laguna.

Net Reduction in Ultimate Loss and Loss Adjustment Expense Liabilities:

The following table shows the components of the movement in the net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,	
	2012	2011
	(in thousands of U.S. dollars)	
Net losses paid	$ (213,396)	$ (227,280)
Net change in case and LAE reserves	272,837	247,951
Net change in IBNR	60,780	52,237
Reduction in estimates of net ultimate losses	120,221	72,908
Reduction in provisions for bad debt	2,782	4,071
Reduction in provisions for unallocated loss adjustment expense liabilities	37,092	37,433
Amortization of fair value adjustments	(18,365)	(25,911)
Net reduction in ultimate loss and loss adjustment expense liabilities	$ 141,730	$ 88,501

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2012 of $141.7 million was attributable to a reduction in estimates of net ultimate losses of $120.2 million, a reduction in provisions for bad debt of $2.8 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $37.1 million, relating to 2012 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $18.4 million.

The reduction in estimates of net ultimate losses of $120.2 million for the nine months ended September 30, 2012, comprised of net favorable incurred loss development of $59.4 million and reductions in IBNR reserves of $60.8 million, related primarily to:

(i) the conclusion of our annual review of historic case reserves for eleven of our insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,400 advised case reserves with an aggregate value of $27.6 million;

(ii) an aggregate reduction in IBNR reserves of $9.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in twelve of our most seasoned insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2012, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts; and

(iii) a reduction in estimates of net ultimate losses of $82.9 million following the completion of eight commutations and four policy buy-backs and settlements of assumed reinsurance liabilities, including one of our largest ten policyholder exposures as at January 1, 2012, and two commutations of ceded

reinsurance recoverables, one of which was among our largest ten reinsurance recoverable balances as at January 1, 2012.

The reduction in provisions for bad debt of $2.8 million for the nine months ended September 30, 2012 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2011 of $88.5 million was attributable to a reduction in estimates of net ultimate losses of $72.9 million, a reduction in provisions for bad debt of $4.1 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $37.4 million, relating to 2011 run-off activity, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $25.9 million.

The reduction in estimates of net ultimate losses of $72.9 million for the nine months ended September 30, 2011, comprised of net favorable incurred loss development of $20.7 million and reductions in IBNR reserves of $52.2 million, related primarily to:

(i) the conclusion of our annual review of historic case reserves for eleven of our insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 7,400 advised case reserves with an aggregate value of $30.5 million; and

(ii) an aggregate reduction in IBNR reserves of $38.7 million as a result of the completion of two commutations of our largest ten exposures and the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in eleven of our most seasoned insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2011, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts.

The reduction in provisions for bad debt of $4.1 million for the nine months ended September 30, 2011 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the nine months ended September 30, 2012 and 2011. Losses incurred and paid are reflected net of reinsurance balances recoverable.

	Nine Months Ended September 30,	
	2012	2011
	(in thousands of U.S. dollars)	
Balance as at January 1	$ 4,282,916	$ 3,291,275
Less: total reinsurance reserves recoverable	1,383,003	525,440
	2,899,913	2,765,835
Effect of exchange rate movement	9,122	(5,686)
Net reduction in ultimate loss and loss adjustment expense liabilities	(141,730)	(88,501)
Net losses paid	(213,396)	(227,280)
Acquired on purchase of subsidiaries	—	610,484
Reserves acquired from loss portfolio transfers	58,721	—
Retroactive reinsurance contracts assumed	21,803	133,727
Net balance as at September 30	2,634,433	3,188,579
Plus: total reinsurance reserves recoverable	1,004,572	1,551,262
Balance as at September 30	$ 3,639,005	$ 4,739,841

Refer to "— Significant New Business —" for information regarding reserves acquired from retroactive reinsurance contracts assumed and loss portfolio transfers during the nine months ended September 30, 2012.

Salaries and Benefits:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$69,968	$48,028	$(21,940)

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were $70.0 million and $48.0 million for the nine months ended September 30, 2012 and 2011, respectively.

The principal changes in salaries and benefits were:

(i) an increase in staff costs due to an increase in average staff numbers from 362 for the nine months ended September 30, 2011 to 402 for the nine months ended September 30, 2012, primarily related to the expansion of our U.S. operations; and

(ii) an increase of approximately $12.9 million in the bonus accrual for the nine months ended September 30, 2012 as compared to 2011 (expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability); partially offset by

(iii) a decrease in U.S. dollar costs of our U.K.-based staff following a decrease in the average British pound exchange rate from approximately 1.6146 for the nine months ended September 30, 2011 to 1.5813 for the nine months ended September 30, 2012. Of our total headcount for the nine months ended September 30, 2011 and 2012, approximately 63% and 54% of salaries, respectively, were paid in British pounds.

General and Administrative Expenses:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$43,423	$66,720	$23,297

General and administrative expenses decreased by $23.3 million during the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. The decrease was due principally to:

(i) a decrease in bank costs of $6.2 million primarily associated with the arrangement and agency fees paid in 2011 in connection with establishing both the Clarendon Facility and our EGL Revolving Credit Facility in 2011;

(ii) a decrease in legal and other professional fees of approximately $11.7 million due primarily to decreased legal fees and settlement costs associated with certain litigation settled in 2011, along with legal fees associated with ongoing and completed due diligence projects;

(iii) a decrease in third-party management fees paid of $1.0 million related primarily to transition fees paid in 2011 in respect of acquisitions completed in the prior year; and

(iv) a decrease in actuarial consulting fees of approximately $1.7 million due to costs associated with due diligence projects.

Net Foreign Exchange Losses:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$2,618	$ 388	$ (2,230)

We recorded net foreign exchange losses of $2.6 million and $0.4 million for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, the net foreign exchange losses arose primarily as a result of the translation of a U.S dollar distribution in one of our subsidiaries whose functional currency is Australian dollars. The distribution was at a rate of approximately AU$1 = $1.08, which was in excess of the U.S. dollar foreign exchange rate at December 31, 2011 of approximately AU$1 = $1.025. In addition, we recorded net foreign exchange losses in the fair value of our Australian dollar and British pound forward exchange contracts discussed above in "— Comparison of the Three Months Ended September 30, 2012 and 2011 — Net Foreign Exchange Losses (Gains)."

In addition to the net foreign exchange losses recorded in our consolidated statement of earnings for the nine months ended September 30, 2012, we recorded in our condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, of $1.3 million as compared to losses, net of noncontrolling interest, of $9.6 million for the same period in 2011. For the nine months ended September 30, 2012 and 2011, the currency translation adjustments related primarily to our Australia-based and Ireland-based subsidiaries. As the functional currency of these subsidiaries is Australian dollars and Euros, respectively, we are required to record any U.S. dollar gains or losses on the translation of their net Australian dollar or Euro assets through accumulated other comprehensive income.

Income Tax Expense:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$30,347	$6,028	$(24,319)

We recorded income tax expense of $30.3 million and $6.0 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in taxes for the nine months ended September 30, 2012 was due largely to higher overall net earnings in our taxable subsidiaries as compared to the same period in 2011.

Noncontrolling Interest:

	Nine Months Ended September 30,		
	2012	2011	Variance
	(in thousands of U.S. dollars)		
Total	$13,638	$17,194	$3,556

We recorded a noncontrolling interest in earnings of $13.6 million and $17.2 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease for the nine months ended September 30, 2012 in noncontrolling interest was due primarily to a decrease in earnings for those companies where there exists a noncontrolling interest. As discussed in "— Comparison of the Three Months Ended September 30, 2012 and 2011 — Noncontrolling Interest," we now provide 100% of the investment in S2008.

Liquidity and Capital Resources

As of September 30, 2012, total cash, restricted cash and investments were $4.48 billion, compared to $4.56 billion at December 31, 2011.

Reinsurance Recoverables

As of September 30, 2012 and December 31, 2011, we had total reinsurance balances recoverable of $1.25 billion and $1.79 billion, respectively. The decrease of $543.3 million in total reinsurance balances recoverable was primarily as a result of commutations and cash collections made during the nine months ended September 30, 2012. The ratio of the provision for uncollectible reinsurance recoverable to total reinsurance balances recoverable (excluding provision for uncollectible reinsurance recoverable) as of September 30, 2012 increased to 21.7% as compared to 16.0% as of December 31, 2011, primarily as a result of commutations and the collection of reinsurance balances recoverable against which there were minimal provisions for uncollectible reinsurance recoverable.

Source of Funds

The following table summarizes our consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 2012 and 2011:

Total cash (used in) provided by:	Nine Months Ended September 30, 2012	2011
	(in thousands of U.S. dollars)	
Operating activities	$ (256,129)	$ (683,540)
Investing activities	197,413	495,963
Financing activities	(142,096)	156,855
Effect of exchange rate changes on cash	(5,307)	(5,855)
Decrease in cash and cash equivalents	$ (206,119)	$ (36,577)

Refer to "Item 1. Financial Statements — Unaudited Condensed Consolidated Statement of Cash Flows for the Nine Month Periods Ended September 30, 2012 and 2011" for further information.

Operating

With respect to the nine month periods ended September 30, 2012 and 2011, net cash used in our operating activities was $256.1 million and $683.5 million, respectively. The decrease in cash used of $427.4 million was attributable primarily to:

(i) an increase of $716.1 million in the sales and maturities of trading securities between 2012 and 2011; and

(ii) a decrease of $129.0 million in the net changes in assets and liabilities; partially offset by

(iii) an increase of $472.6 million in the purchases of trading securities.

Investing

Net cash provided by investing activities for the nine month periods ended September 30, 2012 and 2011 was $197.4 million and $496.0 million, respectively. The decrease in cash provided by investing activities of $298.6 million was attributable primarily to:

(i) an increase of $157.0 million in funding of other investments between 2012 and 2011 due to our increased investments in various bond, hedge and equity funds during 2012;

(ii) a decrease of $36.0 million in the sales and maturities of available-for-sale securities between 2012 and 2011;

(iii) a decrease of $126.9 million in restricted cash and cash equivalents between 2012 and 2011; and

(iv) a net increase of $88.5 million between 2012 and 2011 in cash flows related to acquisitions as a result of no new acquisitions closing in the nine months ended September 30, 2012, as compared to two acquisitions that closed in the 2011 period.

Financing

Net cash used in financing activities for the nine month period ended September 30, 2012 was $142.1 million as compared to $156.9 million of net cash provided by financing activities for the nine month period ended September 30, 2011. The increase of $299.0 million in cash used in financing activities was attributable primarily to:

(i) a decrease of $105.9 million in net proceeds from share issuances as a result of the completion, in April 2011, of a private placement of shares with affiliates of Goldman, Sachs & Co.;

(ii) a decrease of $274.2 million in cash received attributable to bank loans between 2012 and 2011, partially offset by a decrease of $91.1 million in the repayment of bank loans during 2012; and

(iii) an increase of $19.0 million in dividends paid to noncontrolling interest in 2012; partially offset by a decrease of $9.0 million in net distributions of capital to noncontrolling interest.

Long-term Debt

Our long-term debt consists of loan facilities used to partially finance certain of our acquisitions or significant new business transactions along with loans outstanding in relation to the share repurchase agreements, or the Repurchase Agreements, for our ordinary shares entered into with three of our executives and certain trusts and a corporation affiliated with the executives. We draw down on the loan facilities at the time of the acquisition or significant new business transaction, although in some circumstances we have made additional draw downs to refinance existing debt of the acquired company. We incurred interest expense on our loan facilities and loans outstanding relating to the Repurchase Agreements of $5.9 million and $6.1 million for the nine months ended September 30, 2012 and 2011, respectively.

On June 29, 2012, we fully repaid the outstanding principal and accrued interest of $118.0 million on our EGL Revolving Credit Facility. As of September 30, 2012, the unused portion of the EGL Revolving Credit Facility was $250.0 million. The final repayment of principal and accrued interest under the Repurchase Agreements is payable on December 1, 2012.

Total amounts of loans payable outstanding, including accrued interest, as of September 30, 2012 and December 31, 2011 totaled $127.2 million and $242.7 million, respectively.

As of September 30, 2012, all of the covenants relating to our two outstanding credit facilities (the EGL Revolving Credit Facility and the Clarendon Facility) were met. Refer to Note 11 of Item 8 included in our Annual Report on Form 10-K for the year ended December 31, 2011 for a description of these credit facilities and the Repurchase Agreements.

Eurozone Exposure

At September 30, 2012, we did not own any investments in fixed maturity securities (which includes bonds that are classified as cash and cash equivalents) or bond funds issued by the sovereign governments of Portugal, Ireland, Greece or Spain. Our fixed maturity securities and bond funds exposures to Eurozone Governments (which includes regional and municipal governments including guaranteed agencies) by rating and maturity date as at September 30, 2012 are highlighted in the following tables:

	Rating				
	AAA	AA	A	BBB and below	Total
	(in thousands of U.S. dollars)				
Germany	$12,204	$ 2,822	$ —	$ —	$ 15,026
Supranationals(1)	17,907	848	—	—	18,755
Denmark	1,561	—	—	—	1,561
Netherlands	12,634	2,453	—	—	15,087
Norway	2,302	—	—	26,109	28,411
France	3,607	14,586	5,227	—	23,420
Finland	491	—	—	—	491
Sweden	9,507	15,061	4,713	—	29,281
Austria	—	11,459	—	—	11,459
Italy	—	—	514	—	514
	60,213	47,229	10,454	26,109	144,005
Euro region government funds	—	11,782	—	—	11,782
	$60,213	$59,011	$10,454	$26,109	$155,787

	Maturity Date(2)					
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years	Total
	(in thousands of U.S. dollars)					
Germany	$ 810	$ 2,818	$ 4,154	$ 1,745	$ 5,499	$ 15,026
Supranationals(1)	—	—	15,003	—	3,752	18,755
Denmark	—	—	1,561	—	—	1,561
Netherlands	—	—	6,013	5,488	3,586	15,087
Norway	—	1,001	17,255	—	10,155	28,411
France	652	5,227	2,577	11,283	3,681	23,420
Finland	—	—	—	—	491	491
Sweden	9,507	1,372	—	10,399	8,003	29,281
Austria	—	10,059	—	483	917	11,459
Italy	—	—	514	—	—	514
	$10,969	$20,477	$47,077	$29,398	$36,084	$ 144,005

(1) Supranationals are defined as international government or quasi-government organizations.

(2) Our Euro region government funds have daily liquidity and are not included in the maturity date table.

At September 30, 2012, we owned investments in corporate securities (which includes bonds that are classified as cash and cash equivalents) issued by entities whose ultimate parent companies were located within the Eurozone. This includes securities that were issued by subsidiaries whose location was outside of the Eurozone. Our corporate securities exposures by country and listed by rating, sector and maturity date as at September 30, 2012 are highlighted in the following tables:

	Rating					
	AAA	AA	A	BBB	BB and below	Total
	(in thousands of U.S. dollars)					
Germany	$ 6,300	$ —	$ 5,664	$ —	$ —	$ 11,964
Belgium	—	—	6,470	—	—	6,470
Netherlands	—	16,822	20,742	43,317	19,479	100,360
Sweden	—	4,204	8,784	2,573	—	15,561
Norway	12,626	—	3,540	—	—	16,166
France	20,602	8,967	7,909	1,079	—	38,557
Spain	—	2,895	4,992	25,422	—	33,309
Italy	—	—	—	473	—	473
Luxembourg	—	—	1,127	16,792	—	17,919
	$39,528	$32,888	$59,228	$89,656	$ 19,479	$ 240,779

	Sector					
	Financial	Energy	Industrial	Telecom	Utilities	Total
	(in thousands of U.S. dollars)					
Germany	$ 11,964	$ —	$ —	$ —	$ —	$ 11,964
Belgium	6,207	—	263	—	—	6,470
Netherlands	47,466	8,228	4,872	6,286	33,508	100,360
Sweden	12,988	—	2,573	—	—	15,561
Norway	12,626	—	3,540	—	—	16,166
France	31,611	—	6,189	691	66	38,557
Spain	12,810	—	20,499	—	—	33,309
Italy	473	—	—	—	—	473
Luxembourg	1,127	—	3,250	8,499	5,043	17,919
	$ 137,272	$ 8,228	$ 41,186	$ 15,476	$ 38,617	$ 240,779

	Maturity Date					
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years	Total
	(in thousands of U.S. dollars)					
Germany	$ —	$ 6,300	$ 5,134	$ —	$ 530	$ 11,964
Belgium	—	263	—	—	6,207	6,470
Netherlands	21,934	8,230	16,669	11,029	42,498	100,360
Sweden	11,599	—	—	—	3,962	15,561
Norway	—	3,540	—	12,626	—	16,166
France	—	—	9,351	6,578	22,628	38,557
Spain	—	15,188	8,207	9,914	—	33,309
Italy	—	—	—	—	473	473
Luxembourg	3,250	5,043	1,127	8,499	—	17,919
	$36,783	$38,564	$40,488	$48,646	$ 76,298	$ 240,779

Investments we hold in the United Kingdom and Switzerland are not included in the tables above. None of the securities included in the tables above were considered impaired at September 30, 2012.

Aggregate Contractual Obligations

We have updated certain of our contractual obligations previously provided on page 113 of our Annual Report on Form 10-K for the year ended December 31, 2011 (and subsequently updated on page 47 of our Form 10-Q for the three months ended June 30, 2012) to reflect the change in gross reserves along with loan repayments during the nine months ended September 30, 2012. The table does not reflect certain acquisition-related payments potentially due in the future.

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in thousands of U.S. dollars)				
Operating Activities					
Estimated gross reserves for loss and loss adjustment expenses(1)	$3,639.0	$ 630.9	$1,150.7	$ 652.5	$1,204.9
Financing Activities					
Loan repayments (including interest payments)(2)	137.3	22.9	114.4	—	—
Total	$3,776.3	$ 653.8	$1,265.1	$ 652.5	$1,204.9

(1) Gross reserves for loss and loss adjustment expenses (net of fair value adjustments) decreased by $643.9 million in the nine months ended September 30, 2012 primarily as a result of claim settlements and commutations. The amounts in the above table represent our best estimate of known liabilities as of September 30, 2012. Accordingly, the amounts paid out in the time periods shown may differ from those indicated above.

(2) In June 2012, we fully repaid the outstanding principal and interest on our EGL Revolving Credit Facility.

There have been no other material changes in our Aggregate Contractual Obligations table since December 31, 2011. Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2011 for more information.

Commitments and Contingencies

On March 14, 2012, we eliminated a certain guarantee of our obligation to our wholly-owned subsidiary, Fitzwilliam Insurance Limited, or Fitzwilliam, in respect of a letter of credit issued on its behalf by a London-based bank in the amount of £7.5 million (approximately $11.7 million) relating to Fitzwilliam's insurance contract requirements.

On June 26, 2012, we provided a limited parental guarantee supporting Fitzwilliam's obligation in respect of an amendment to an existing letter of credit issued on its behalf by a London-based bank in the amount of approximately $11.2 million relating to Fitzwilliam's insurance contract requirements.

As at September 30, 2012 and December 31, 2011, we had, in total, parental guarantees supporting Fitzwilliam's obligations in the amount of $231.0 million and $219.9 million, respectively.

As at September 30, 2012, we have funded $0.8 million of our total $5.0 million commitment to Dowling Capital Partners I, L.P.

We have entered into definitive agreements with respect to: (i) the SeaBright Merger, which is expected to close in the fourth quarter of 2012 or the first quarter of 2013; (ii) the Reciprocal of America loss portfolio transfer, which is expected to close in the first quarter of 2013; and (iii) the purchase of all of the shares of HLIC DE and HSBC DE, which is expected to close by the end of the first quarter of 2013. The SeaBright Merger and HSBC agreements are described above in "— Acquisitions", and the Reciprocal of America agreement is described above in "— Significant New Business".

Refer to Item 1 "Legal Proceedings" of Part II to this Quarterly Report on Form 10-Q for a description of litigation matters.

There have been no other material changes in our commitments or contingencies since December 31, 2011. Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2011 for more information.

Critical Accounting Estimates

Our critical accounting estimates are discussed in Management's Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

Off-Balance Sheet and Special Purpose Entity Arrangements

At September 30, 2012, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of our management, as well as the markets for our ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as "estimate," "project," "plan," "intend," "expect," "anticipate," "believe," "would," "should," "could," "seek," "may" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward looking statements should, therefore, be considered in light of various important factors, including those set forth in this quarterly report.

Factors that could cause actual results to differ materially from those suggested by the forward-looking statements include:

- risks associated with implementing our business strategies and initiatives;
- the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;
- risks relating to the availability and collectability of our reinsurance;
- risks that we may require additional capital in the future, which may not be available or may be available only on unfavorable terms;
- changes and uncertainty in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions, which could affect our investment portfolio, our ability to finance future acquisitions and our profitability;
- losses due to foreign currency exchange rate fluctuations;
- tax, regulatory or legal restrictions or limitations applicable to us or the insurance and reinsurance business generally;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- emerging claim and coverage issues;

- lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;
- loss of key personnel;
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management's discretion;
- operational risks, including system or human failures;
- the risk that ongoing or future industry regulatory developments will disrupt our business, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;
- risks relating to our ability to obtain regulatory approvals, including the timing, terms and conditions of any such approvals, and satisfy other closing conditions in connection with our acquisition agreements, which could affect our ability to complete acquisitions;
- changes in Bermuda law or regulation or the political stability of Bermuda;
- changes in tax laws or regulations applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere; and
- changes in accounting policies or practices.

The factors listed above should be not construed as exhaustive and should be read in conjunction with the other cautionary statements and Risk Factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2011, as well as in the other materials filed and to be filed with the U.S. Securities and Exchange Commission. We undertake no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

Item 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK***

There have been no material changes in our market risk exposures since December 31, 2011. For more information refer to "Quantitative and Qualitative Disclosures about Market Risk" included in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Our management performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

Our management has performed an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of changes in our internal control over financial reporting that occurred during the three months ended September 30, 2012. Based upon that evaluation there were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

In connection with our definitive agreement to acquire SeaBright, two purported class action lawsuits were filed against SeaBright, the members of its board of directors, our merger subsidiary (AML Acquisition, Corp.) and, in one of the cases, us. The first suit was filed September 13, 2012 in the Superior Court of the State of Washington and the second suit was filed September 20, 2012 in the Court of Chancery of the State of Delaware. The lawsuits allege, among other things, that SeaBright's directors breached their fiduciary duties when negotiating, approving and seeking stockholder approval of the Merger, and that SeaBright and we aided and abetted the alleged breaches of fiduciary duties. In the suits, plaintiffs sought to enjoin defendants from taking any action to consummate the transactions contemplated by the Merger Agreement, as well as monetary damages, including attorneys' fees and expenses. We believe these suits are without merit. Nevertheless, in order to avoid the potential cost and distraction of continued litigation and to eliminate any risk of delay to the closing of the Merger, we, SeaBright and the SeaBright director defendants have agreed in principle to settle the two lawsuits, without admitting any liability or wrongdoing. The settlement requires SeaBright to make supplemental information available to its stockholders through a filing of a Current Report on Form 8-K with the U.S. Securities and Exchange Commission. The settlement will not change the amount of the Merger Consideration that we will pay to SeaBright's stockholders in any way, nor will it alter any deal terms or affect the timing of the November 19, 2012 SeaBright stockholder meeting (at which stockholders will vote on whether to approve the Merger). The settlement is subject to execution and delivery of definitive documentation, the closing of the Merger, approval by the Washington court of the settlement and approval by the Delaware court of dismissal of the Delaware suit. If the settlement becomes effective, both lawsuits will be dismissed.

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on our business, results of operations or financial condition. Nevertheless, we cannot assure you that lawsuits, arbitrations or other litigation will not have a material adverse effect on our business, financial condition or results of operations. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental claims. There can be no assurance that any such future litigation will not have a material adverse effect on our business, financial condition or results of operations.

Item 1A. *RISK FACTORS*

Our results of operations and financial condition are subject to numerous risks and uncertainties described in "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. The risk factors identified therein have not materially changed.

Item 5. *OTHER INFORMATION*

On November 7, 2012, we appointed Kenneth J. LeStrange to our Board of Directors, effective immediately. Mr. LeStrange's appointment was recommended to the Board of Directors by our independent directors. Mr. LeStrange, age 55, is the former Chairman, President and Chief Executive Officer of Endurance Specialty Holdings Ltd., a Bermuda-based specialty provider of property and casualty insurance and reinsurance, which he founded in 2001. He has over 33 years of experience in the insurance industry, and currently serves as Chairman of the Board of S.A.C. Re Holdings, Ltd., the parent company of S.A.C. Re, a Bermuda-based reinsurer, and a Director of Maxum Specialty Insurance Group, the parent company of two Delaware domiciled insurers.

The Board of Directors has determined that Mr. LeStrange is independent as defined by Nasdaq Marketplace Rule 5605(a)(2). He has been appointed to the Audit and Compensation Committees, as well as the newly formed Nominating and Governance Committee. Mr. LeStrange will be eligible to participate in Enstar's

Deferred Compensation and Ordinary Share Plan for Non-Employee Directors, which is described in the Company's Proxy Statement (filed with the U.S. Securities and Exchange Commission on April 30, 2012), or the Proxy Statement, under the heading, "Director Compensation."

Mr. LeStrange entered into an indemnification agreement with the Company, which includes the same terms as the indemnification agreements executed with each of Enstar's other current directors. These terms are described in the Proxy Statement under the heading, "Certain Relationships and Related Transactions — Indemnification of Directors and Officers; Directors Indemnity Agreements."

Item 6. ***EXHIBITS***

The information required by this item is set forth on the exhibit index that follows the signature page of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 8, 2012.

ENSTAR GROUP LIMITED

By: /s/ Richard J. Harris
Richard J. Harris
Chief Financial Officer, Authorized Signatory and
Principal Accounting and Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
2.1¿	Agreement and Plan of Merger, dated as of August 27, 2012, among Enstar Group Limited, AML Acquisition, Corp. and SeaBright Holdings, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on August 28, 2012).
2.2*¿	Stock Purchase Agreement, dated September 6, 2012, among Household Insurance Group Holding Company, Pavonia Holdings (US), Inc. and Enstar Group Limited.
3.1	Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K/A filed on May 5, 2011).
3.2	Third Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.1(b) of the Company's Form 10-Q filed on August 5, 2011).
3.3	Certificate of Designations for the Series A Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on April 21, 2011).
10.1*	Amendment Letter, dated July 25, 2012, to Revolving Credit Facility Agreement among Enstar Group Limited and certain of its Subsidiaries, National Australia Bank Limited and Barclays Corporate as Arrangers, and National Australia Bank Limited as Agent and Security Agent.
15.1*	KPMG Audit Limited Letter Regarding Unaudited Interim Financial Information.
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive Data Files.

* Filed herewith

** Furnished herewith

¿ Certain of the schedules and similar attachments are not filed but Enstar Group Limited undertakes to furnish a copy of the schedules or similar attachments to the SEC upon request

Exhibit 2.2

STOCK PURCHASE AGREEMENT
AMONG
HOUSEHOLD INSURANCE GROUP HOLDING COMPANY,
PAVONIA HOLDINGS (US), INC.
AND
ENSTAR GROUP LIMITED

DATED AS OF SEPTEMBER 6, 2012

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT, dated as of September 6, 2012 (this "Agreement"), among Household Insurance Group Holding Company ("Seller"), a Delaware corporation, Pavonia Holdings (US), Inc. ("Buyer"), a Delaware corporation, and Enstar Group Limited ("Buyer Parent"), a Bermuda exempted company.

WHEREAS, Seller owns all of the issued and outstanding shares of capital stock of Household Life Insurance Company of Delaware ("HLIC DE"), a Delaware domiciled life insurance company, and HSBC Insurance Company of Delaware ("HSBC DE"), a Delaware domiciled property and casualty insurance company (HLIC DE and HSBC DE, referred to herein individually as a "Company" and together as the "Companies"); and

WHEREAS, Seller desires to sell to Buyer, and Buyer desires to purchase from Seller, the Shares, on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained in this Agreement, and of the mutual benefits to be derived from this Agreement, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms shall have the respective meanings set forth below:

"2012 Bonus Accrual" has the meaning set forth in Section 6.4(a).

"2013 Bonus Accrual" has the meaning set forth in Section 6.4(b).

"Action" has the meaning set forth in Section 3.12.

"Administrative Services Agreement (Canadian Business)" means the Credit Insurance Group Master Policy Administrative Services Agreement (Canadian Business) by and among HLIC DE, HSBC DE and FCNL, on the one hand, and HSBC Retail Services Limited, Household Trust Company, HSBC Finance Corporation Canada, HSBC Finance Mortgages Inc. and HSBC Bank Canada, on the other hand, substantially in the form attached hereto as Exhibit A-1.

"Administrative Services Agreement (U.S. Business)" means the Credit Insurance Group Master Policy Administrative Services Agreement (U.S. Business) by and among HLIC DE, HSBC DE and FCNL, on the one hand, and certain other parties listed on Exhibit A attached thereto, on the other hand, substantially in the form attached hereto as Exhibit A-2.

"Affiliate" of any Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person. For purposes of this definition, "control" (including its correlative meanings "controlled

by" and "under common control with") shall mean possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

"Affiliate Contracts" has the meaning set forth in Section 3.20.

"Affiliate Payment" has the meaning set forth in Section 5.19.

"Agency Contracts" has the meaning set forth in Section 3.14(e).

"Aggregate Closing Capital and Surplus" means the total aggregate Capital and Surplus (as defined in Exhibit B) of the Companies and the Subsidiaries on a Destacked Basis (as defined in Exhibit B) as of the Closing.

"Aggregate Target Closing Capital and Surplus" has the meaning set forth on Exhibit B.

"Agreement" has the meaning set forth in the introductory paragraph of this Agreement.

"Annual SAP Financial Statements" has the meaning set forth in Section 3.6.

"Applicable Laws" has the meaning set forth in Section 3.6.

"Asset Allocation" has the meaning set forth in Section 10.9(b).

"Assurant Adjustment" shall be (i) in the event of a termination or expiration on or prior to the Closing Date of some or all of the reinsurance and/or similar contracts existing on the date hereof between the Companies and/or the Subsidiaries on the one hand and Assurant, Inc. and/or its Affiliates (collectively, "Assurant") on the other hand (collectively, the "Assurant Contracts"), or the receipt by the Companies and/or the Subsidiaries of a notice of termination or non-renewal of any such contract on or prior to the Closing Date, an amount equal the component of the Purchase Price Buyer would have otherwise paid at Closing (as part of the total Purchase Price) for the future value that would otherwise have been derived from the terminated contract had it not been terminated, or (ii) in the event of an amendment to any Assurant Contract on or prior to the Closing Date that increases the fees payable by the Companies and/or the Subsidiaries under such contract (to the extent not subject to any other economic offset), an amount equal to the present value (as of the Closing Date and utilizing an 11% discount rate) of the future increased payments to be made to Assurant, if any, pursuant to such amendment multiplied by 59.7%. For the avoidance of doubt, if the any Assurant Contract is amended as contemplated herein and then terminated prior to the Closing Date, only the termination scenario will be utilized to calculate this adjustment. Buyer and Seller shall negotiate and calculate in good faith the amount of the Assurant Adjustment prior to Closing and exclude from the Assurant Adjustment any adjustment that is already included through the Purchase Price Calculation Mechanism.

"Burdensome Condition" means (i) a material impairment of the benefits, taken as a whole, which Buyer reasonably expects to derive from the consummation of the transactions contemplated by this Agreement, including a material impairment or interference with the ability of Buyer to place the Companies and Subsidiaries into runoff; (ii) a material negative effect on

the business or the assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Companies or Subsidiaries; or (iii) any requirement to sell or divest, before or after the Closing Date, any material assets, liabilities, businesses, operations, or interest in any assets or businesses of Buyer or any of its Affiliates or the Companies or Subsidiaries.

"Business Re-Alignment Transactions" has the meaning set forth in Section 5.15(a).

"Business Day" means any day other than a Saturday, Sunday or other day on which banking institutions in Delaware are required or authorized by law or executive order to be closed.

"Buyer" has the meaning set forth in the introductory paragraph of this Agreement.

"Buyer Employee Benefit Plans" has the meaning set forth in Section 6.2.

"Buyer Parent" has the meaning set forth in the introductory paragraph of this Agreement.

"Canadian Tax Audit" means the matter disclosed in item No. 3 of Section 3.10 of the Disclosure Schedule.

"Cause" means any Employee's (a) failure to perform his/her material duties as determined by his/her employer or its Affiliates, which failure (if curable) continues for ten (10) Business Days after such employer or one of its Affiliates has given written notice to the employee specifying in reasonable detail the manner in which the employee has failed to perform such duties; (b) commission of an act or omission constituting (i) a felony, (ii) embezzlement, theft or material dishonesty with respect to his/her employer or any of its Affiliates, or (iii) fraud; (c) commission of an act or omission that (i) could adversely and materially affect his/her employer's or its Affiliates' business or reputation or (ii) involves moral turpitude; or (d) breach, non-performance or non-observance of any restrictive covenant or any other written agreement with his/her employer or any of its Affiliates prohibiting any or all of (i) the disclosure of confidential trade secrets and other information, (ii) competitive activities or the solicitation of customers, or (iii) the solicitation of employees or former employees.

"Closing" has the meaning set forth in Section 2.2.

"Closing Balance Sheet Objectives" has the meaning set forth in Section 5.17.

"Closing Date" has the meaning set forth in Section 2.2.

"CML Audit" means the matter disclosed in item No. 3 of Section 3.11 of the Disclosure Schedule.

"Code" means the Internal Revenue Code of 1986, as amended, and any rules and regulations thereunder.

"Company" or "Companies" has the meaning set forth in the recitals.

"Company Agents" means, to the Knowledge of Seller, each Person who is performing the duties of insurance agent, broker, seller, marketer, third-party administrator, adjuster, underwriter, manager, wholesaler, producer, reinsurance intermediary or distributor of any Insurance Contract or any insurance or insurance product for the Companies or Subsidiaries, whether as an employee, agent, subcontractor or otherwise.

"Company Material Adverse Effect" means any event, effect, circumstance, change or development that, individually or in the aggregate with other events, effects, circumstances, changes or developments, has a material adverse effect on the financial condition, business operations or results of operations of the Companies and the Subsidiaries, taken as a whole, or the ability of Seller to consummate the transactions contemplated hereby on a timely basis; provided, however, that "Company Material Adverse Effect" shall exclude any adverse effect resulting from, arising out of or relating to: (i) changes in general economic, financial, capital market or political conditions (including changes in interest rates); (ii) any occurrence or condition generally affecting any segment of the property and casualty insurance industry and life, credit and unemployment insurance industry in which the Companies and the Subsidiaries participate (including natural catastrophe events, hostility and terrorism); (iii) any change or proposed change in SAP or Applicable Law; (iv) any change in the value of the Investment Assets of the Companies and the Subsidiaries following the date hereof as a result of a decrease in the credit quality of any of the Investment Assets (provided such decrease is not attributable to the Companies or the Subsidiaries having engaged in investment activities with respect to the Investment Assets of each Company or a Subsidiary that breach any agreement with respect to such Investment Assets made by the Companies herein) or changes in interest rates; (v) any downgrade or potential downgrade of the financial strength, claims paying ability, insurance or other ratings of the Companies or any Subsidiary (it being agreed that the facts and circumstances giving rise to such downgrade or potential downgrade (other than any facts and circumstances that are the subject of subclauses (i), (ii), (iii), (iv), (vi) and (vii) of this definition) may be taken into account in determining whether there has been a Company Material Adverse Effect); (vi) the negotiation, execution, delivery and performance of this Agreement or the consummation of the transactions contemplated by this Agreement (including any occurrence or condition arising out of the identity of or facts relating to Buyer); and (vii) the public announcement of this Agreement or the transactions contemplated by this Agreement (including any occurrence or condition arising out of the threatened or actual impact on relationships of the Companies and the Subsidiaries with customers, vendors, suppliers, employees or others having business relationships with the Companies and the Subsidiaries); provided, however, that any event, effect, circumstance, change or development referred to in subclauses (i) or (ii) of this definition shall be taken into account in determining whether a Company Material Adverse Effect has occurred or could reasonably be expected to occur to the extent that such event, effect, circumstance, change or development has a disproportionate effect on any or all of the Companies and the Subsidiaries compared to other similarly situated U.S. property and casualty, and life, credit and unemployment insurance companies, as applicable, that are running off their existing liabilities.

"Comparable Job Offer" means the following terms of employment, which shall apply in respect of Transferred Employees offered employment by Buyer or an Affiliate of Buyer: (i) a position requiring substantially comparable skills and abilities as the Employee's position

immediately prior to the Closing Date (disregarding whether a position is managerial or non-managerial), (ii) annual base salary, weekly or hourly rate of pay and commission pay arrangements, in each case, that are substantially the same or better, in the aggregate, than such individual's salary, rate of pay and commission pay arrangements as in effect immediately prior to the Closing Date, (iii) a position that does not involve a significant change in work schedule, (iv) benefits that are no less favorable, in the aggregate, to those offered to the Employee immediately prior to the Closing Date, (v) annual incentive opportunities for performance periods after the Closing Date that are substantially the same as the annual incentive opportunity provided to the Employee (both by job classification or status and by geographic location) in effect for the most recently completed annual performance period prior to the Closing Date, (vi) at a work location not more than thirty-five (35) miles from such Employee's work location immediately prior to the Closing Date (provided that working from a home office shall be deemed to meet the requirements of this clause (vi)), and (vii) a work status (full- or part-time) that is not changed from that in effect immediately prior to the Closing Date.

"Confidentiality Agreement" means the letter agreement dated March 8, 2012, between Buyer and Seller.

"Consolidated Tax Returns" has the meaning set forth in Section 10.2(a).

"Contracts" means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements.

"De Minimis Items" has the meaning set forth in Section 9.1(b).

"Delaware Court" has the meaning set forth in Section 12.7(b).

"Delayed Employees" has the meaning set forth in Section 6.1(b).

"Delayed Transfer Date" has the meaning set forth in Section 6.1(b).

"DFS" means the New York State Department of Financial Services.

"DFS Subpoena" means the subpoena served upon HSBC DE by the DFS on January 20, 2012 regarding the LPI Business.

"Disclosed Taxes" means the amount of any liability for Taxes accrued for or taken into account in the calculation of Aggregate Closing Capital and Surplus as finalized in connection with the determination of the final Purchase Price pursuant to Section 2.6.

"Disclosure Schedule" means the Disclosure Schedule delivered in connection with, and constituting a part of, this Agreement.

"Dispute Notice" has the meaning set forth in Section 2.6(b).

"Dispute Period" has the meaning set forth in Section 2.6(b).

"Disputed Items" has the meaning set forth in Section 2.6(b).

"Dividends" has the meaning set forth in Section 5.11(a).

"Election Form" has the meaning set forth in Section 10.9(b).

"Employee" means each individual listed on Section 6.1(a) of the Disclosure Schedule who immediately prior to the Closing Date is (i) actively employed by Seller or any of its Affiliates principally in connection with the business of the Companies and/or the Subsidiaries; and (ii) employed by Seller or any of its Affiliates principally in connection with the business of the Companies and/or the Subsidiaries who is absent from work on account of vacation, jury duty, funeral leave, personal day, sickness, short-term disability, workers compensation leave, military leave or leave under the Family Medical Leave Act or other approved leave of absence for whom an obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or Applicable Law.

"Employee Benefit Plan" means each "employee benefit plan" (as defined in Section 3(3) of ERISA), retirement, pension, bonus, incentive compensation, deferred compensation, phantom stock, equity-based, severance, change in control, retention, salary continuation, employment, consulting, Section 125 plan, health and welfare, leave of absences, vacation pay, paid time off or other plan or agreement relating to compensation or fringe benefits.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any rules and regulations thereunder.

"ERISA Affiliate" has the meaning set forth in Section 3.9.

"Estimated Purchase Price" has the meaning set forth in Section 2.1.

"Estimated Purchase Price Statement" has the meaning set forth in Section 2.1.

"Excluded Employees" has the meaning set forth in Section 6.1(b).

"Extraordinary Transaction" has the meaning set forth in Section 10.1(d).

"Federal Funds Rate" means the rates on overnight federal funds by federal funds brokers as published on the Closing Date by the Federal Reserve Bank of New York.

"FCNL" means First Central National Life Insurance Company of New York.

"Final Adjustment Payment" has the meaning set forth in Section 2.6(c).

"Forced-Placed Insurance" has the meaning set forth in Section 3.17(e).

"Fundamental Representations" has the meaning set forth in Section 8.1.

"Governmental Entity" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that rules, regulations or orders of such organization or authority have the force of law), or any arbitrator, court or tribunal of competent jurisdiction.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination, directive, cease and desist order, supervisory order, letter, agreement or award entered by or entered into with any Governmental Entity.

"Guarantee" has the meaning set forth in Section 5.14(a).

"Guaranteed Obligations" has the meaning set forth in Section 5.14(a).

"Guaranteed Payments" has the meaning set forth in Section 5.14(a).

"HLIC DE" has the meaning set forth in the recitals.

"HSBC DE" has the meaning set forth in the recitals.

"HLIC Illinois Return" has the meaning set forth in Section 3.10(u).

"Indemnification Basket" has the meaning set forth in Section 9.1(b).

"Indemnification Cap" has the meaning set forth in Section 9.1(c).

"Indemnified Party" has the meaning set forth in Section 9.2(a).

"Indemnifying Party" has the meaning set forth in Section 9.2(a).

"Independent Accounting Firm" means an independent certified public accounting firm of national standing and reputation jointly selected and retained by Buyer's and Seller's respective auditors that is not an independent auditor for either Buyer or Seller and is otherwise neutral and impartial; provided, however, that if Buyer's and Seller's respective auditors are unable to select such other accounting firm within ten (10) Business Days after (i) the expiration of the Dispute Period in the case of Section 2.6(b), or (ii) the date on which the parties determine they cannot settle the Tax Dispute in the case of Section 10.2(c) or any dispute related to the Asset Allocation in the case of Section 10.9(b), each of Buyer and Seller shall provide to the other party a list of three independent certified public accounting firms of national standing and reputation, and (x) if any firm appears on both lists, such firm shall be the accountant, unless more than one firm appears on both lists, in which case the accountant shall be selected at random from among the firms on both lists, (y) otherwise each party shall eliminate the names of two firms from the list provided by the other party and the accountant shall be selected at random from among the remaining two firms.

"Insurance Approval Filings" has the meaning set forth in Section 5.4(c).

"Insurance Contracts" has the meaning set forth in Section 3.17(b).

"Insurance Laws" means all Applicable Laws applicable to the business of insurance or reinsurance or the regulation of insurance or reinsurance, whether federal, national, provincial, state, or local.

"Insurance Licenses" has the meaning set forth in Section 3.22.

"Insurance Policies" has the meaning set forth in Section 3.21.

"Insurance Regulator" has the meaning set forth in Section 3.6.

"Intellectual Property" has the meaning set forth in Section 3.16(a).

"Intercompany Accounts" has the meaning set forth in Section 3.20.

"Interim SAP Statements" has the meaning set forth in Section 3.6.

"Investment Assets" has the meaning set forth in Section 3.26.

"Investment Guidelines" has the meaning set forth in Section 3.26.

"Knowledge" means the actual or constructive knowledge of (a) with respect to Seller, those persons listed in Section 1.1(a) of the Disclosure Schedule, and (b) with respect to Buyer, those persons listed in Section 1.1(b) of the Disclosure Schedule. For purposes of this definition, a person shall be deemed to have knowledge of facts that would be reasonably expected to come to the attention of such person in the course of the management reporting practices of Buyer or Seller, as applicable, or if such individual would have discovered such facts or matters after conducting a reasonable investigation regarding the accuracy of any representation or warranty contained in this Agreement.

"Leave Recipient" has the meaning set forth in Section 6.1(b).

"Liens" has the meaning set forth in Section 3.2.

"Liquidation Plan" has the meaning set forth in Section 5.17.

"Losses" means any and all liabilities, claims, obligations, losses, costs, disbursements, penalties, fines, expenses (including reasonable attorneys', accountants' and other out-of-pocket professional fees and expenses incurred in the investigation, collection, prosecution or defense of any claims, whether or not involving any third party) and damages, but excluding lost profits or any punitive, exemplary, consequential (but not incidental) or similar damages (other than lost profits or any punitive, exemplary, consequential or similar damages actually paid to a third party in a Third Party Claim).

"LPI Business" means the lender placed insurance on which HSBC DE acts as the assuming reinsurer.

"Material Contracts" has the meaning set forth in Section 3.14.

"Notice Period" has the meaning set forth in Section 2.6(b).

"Obligations" has the meaning set forth in Section 5.14(a).

"Permits" has the meaning set forth in Section 3.11.

"Permitted Liens" has the meaning set forth in Section 3.25.

"Person" means an individual, corporation, partnership (limited or general), joint venture, limited liability company, association, trust, unincorporated organization or other entity.

"Personal Property" has the meaning set forth in Section 3.25.

"Purchase Price" shall be calculated pursuant to the Purchase Price Calculation Mechanism set forth on Exhibit B.

"Purchase Price Adjustment Report" has the meaning set forth in Section 2.6(a).

"Purchaser Defense" has the meaning set forth in Section 5.14(f).

"Re-Alignment Contracts" has the meaning set forth in Section 5.15(b).

"Regulatory Filings" has the meaning set forth in Section 3.23.

"Reinsurance Agreement" has the meaning set forth in Section 3.17(a).

"Representative" means with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants, actuaries and other agents of such Person.

"Reserve Assets" has the meaning set forth in Section 4.11(b).

"Reserves" has the meaning set forth in Section 4.11(a).

"SAP" has the meaning set forth in Section 3.6.

"SAP Financial Statements" has the meaning set forth in Section 3.6.

"Section 338(h)(10) Election" has the meaning set forth in Section 10.9(a).

"Securities Act" has the meaning set forth in Section 4.4.

"Seller" has the meaning set forth in the introductory paragraph of this Agreement.

"Seller Affiliated Group" has the meaning set forth in Section 3.10(u).

"Seller Benefit Plans" has the meaning set forth in Section 3.9.

"Seller Trademarks" has the meaning set forth in Section 5.8(a).

"Settlement Date" has the meaning set forth in Section 2.6(c).

"Shares" means all of the outstanding shares of the capital stock of HSBC DE, par value $700.00 per share, and all of the outstanding shares of the capital stock of HLIC DE, par value $10.00 per share.

"subsidiary" of any Person means another Person 50% or more of the total combined voting power of all classes of capital stock or other voting interests of which, or 50% or more of the equity securities of which, is owned directly or indirectly by such first Person.

"Subsidiary" or "Subsidiaries" has the meaning set forth in Section 3.3.

"Tax Contest" means any audit or administrative or judicial proceeding or any demand or claim on Buyer, the Companies or any Subsidiary which, if determined adversely to the taxpayer, would be grounds for indemnification under ARTICLE X.

"Tax Contest Expenses" has the meaning set forth in Section 10.1(a).

"Tax Dispute" has the meaning set forth in Section 10.2(c).

"Tax Return" means any return, declaration, report, claim for refund, or information return, statement or other document relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, required to be filed with or provided to any Taxing Authority in respect of Taxes or the administration of any laws, regulations or administrative requirements related to any Tax.

"Taxes" means all federal, state, local and foreign taxes of any kind, including, but not limited to, those on or measured by or referred to as income, gross receipts, sales, use, production, ad valorem, transfer, franchise, profits, withholding, payroll, employment, unemployment, estimated, excise, severance, environmental, stamp, occupation, premium, value added, property (real or personal), real property gains, windfall profits taxes, or similar taxes, fees, assessments or charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a Tax Return), together with any interest and any penalties, additions to tax or additional amounts imposed thereon by any Taxing Authority, domestic or foreign.

"Taxing Authority" means any Governmental Entity or other Person responsible for and having jurisdiction over, the administration of Taxes.

"Termination Date" has the meaning set forth in Section 11.1(b).

"Third Party Claim" has the meaning set forth in Section 9.2(a).

"Trademark License" has the meaning set forth in Section 5.8(a).

"Transfer Date" has the meaning set forth in Section 6.1(b).

"Transfer Taxes" has the meaning set forth in Section 10.7.

"Transferred Employees" has the meaning set forth in Section 6.1(b).

"Transition Services Agreement" has the meaning set forth in Section 5.16.

"Voting Debt" has the meaning set forth in Section 3.2.

"Wire Transfer" means a payment in immediately available funds by wire transfer in lawful money of the United States of America to such account or accounts as shall have been designated by notice to the paying party.

ARTICLE II

PURCHASE OF THE SHARES

Section 2.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Closing, Seller shall sell all of the Shares to Buyer, and Buyer shall purchase all of the Shares from Seller, free and clear of all Liens, for an aggregate amount equal to the Purchase Price. No later than three (3) Business Days prior to the Closing Date, Seller shall deliver to Buyer a statement (the "Estimated Purchase Price Statement") setting forth (i) the estimated Purchase Price (including, to the extent applicable, any adjustment to reflect the Assurant Adjustment) (the "Estimated Purchase Price") payable at the Closing, and (ii) the Aggregate Target Closing Capital and Surplus. The Estimated Purchase Price Statement shall be in the form of Exhibit C attached hereto and shall be prepared in good faith using the accounting principles, procedures, policies and methods used by Seller in preparing the SAP Financial Statements, consistently applied, as modified by the Purchase Price Calculation Mechanism set forth on Exhibit B. The Estimated Purchase Price payable at the Closing shall be subject to adjustment as provided in Section 2.6. The Purchase Price shall be allocated between each of the Companies as set forth on Exhibit D attached hereto. Notwithstanding any other provision of this Agreement, in no event shall the Purchase Price, as adjusted pursuant to the terms of this Agreement, be greater than $300,000,000 or less than negative $200,000,000.

Section 2.2 Closing. Unless this Agreement shall have been terminated pursuant to Section 11.1, and subject to the satisfaction or waiver of each of the conditions set forth in ARTICLE VII, the closing of the purchase and sale of the Shares (the "Closing") shall take place at 10:00 a.m. on the day that is the last Business Day of the month in which the last to be fulfilled or waived of the conditions set forth in ARTICLE VII (other than conditions that, by their nature, are to be fulfilled on the Closing Date) shall be fulfilled or waived in accordance with this Agreement, at the offices of Edwards Wildman Palmer LLP, One Giralda Farms, Madison, New Jersey, unless another date, time or place is agreed to in writing by the parties hereto; provided, however, that if the last day of such month is not a Business Day, then the Closing will take place on the last Business Day of the month but be effective as of the last day of the month. The effective date and time of the Closing are herein referred to as the "Closing Date." All of the contemplated transactions under this Agreement shall be deemed to be consummated as of 11:59:59 p.m. Eastern Time on the Closing Date and all actions taken at Closing shall be deemed to have occurred simultaneously and shall be deemed effective as of the dates and times specified in this Agreement.

Section 2.3 Payment of Purchase Price and Delivery of Shares. Subject to the fulfillment or waiver (where permissible) of the conditions set forth in ARTICLE VII, at the Closing:

(a) Buyer shall pay to Seller the Estimated Purchase Price by Wire Transfer; and

(b) Seller shall deliver to Buyer stock certificates evidencing the Shares, free and clear of all Liens, duly endorsed in blank or with stock powers or other proper instruments of assignment duly endorsed in blank, in proper form for transfer, with all appropriate stock transfer tax stamps affixed.

Section 2.4 Seller's Closing Date Deliveries. Subject to fulfillment or waiver (where permissible) of the conditions set forth in ARTICLE VII, at the Closing, Seller shall deliver to Buyer all of the following:

(a) FIRPTA Certificate. A certification from Seller and signed by a responsible officer of Seller, as contemplated under Section 1.1445-2(b)(2) of the Treasury Regulations, certifying that Seller is not a foreign Person.

(b) Stock Certificates. The stock certificates representing all of the outstanding shares of capital stock of each Subsidiary, free and clear of all Liens.

(c) Minute Books. The stock transfer book, minute books and corporate seal of each of the Companies and the Subsidiaries.

(d) Good Standing Certificates. (i) Certificates of the organization, valid existence and good standing of each Company and each of the Subsidiaries as a domestic corporation in the jurisdiction of its incorporation and (ii) certificates of compliance or good standing or a similar certificate for each Company and each Subsidiary from the applicable Insurance Regulators, each as of a date no more than five (5) Business Days prior to the Closing Date.

(e) Consents. Copies (or other evidence) of all valid consents, waivers, clearances, approvals, permits or authorizations of, filings or registrations with, or notifications to, all Governmental Entities required to be obtained, filed or made by Seller in satisfaction of the conditions set forth in Section 7.1 and Section 7.2.

(f) Resignations. Resignations from each of the directors and officers of the Companies and the Subsidiaries, except as otherwise requested by Buyer.

(g) Administrative Service Agreements. The Administrative Services Agreement (U.S. Business) executed by each party thereto and the Administrative Services Agreement (Canadian Business) executed by each party thereto.

(h) Transition Services Agreement. The Transition Services Agreement executed by each party thereto.

(i) Section 338(h)(10) Election. Internal Revenue Service Form 8023 for the Section 338(h)(10) Election, executed by HSBC North America Holdings, Inc. as common parent of the Seller Affiliated Group, and any other required Election Form provided by Buyer pursuant to Section 10.9(b), executed by the appropriate member of the Seller Affiliated Group.

(j) Closing Certificate. A certificate signed on behalf of Seller by an executive officer to the effect that such executive officer has read Section 7.2 of this Agreement and the conditions set forth in Section 7.2(a) and Section 7.2(b) have been satisfied.

(k) Secretary's Certificate. A certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller certifying (i) the names and signatures of the officers of Seller authorized to sign this Agreement and the other documents to be delivered hereunder and (ii) that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, and that all such resolutions are in full force and effect and are all the resolutions duly adopted in connection with the transactions contemplated hereby.

(l) Trademark License. The Trademark License executed by HSBC Finance Corporation.

(m) Other Documents. Such other documents or instruments required to be delivered by Seller at or prior to the Closing pursuant to ARTICLE VII or as Buyer shall request that are reasonably necessary to consummate the transactions contemplated by this Agreement.

Section 2.5 Buyer's Closing Date Deliveries. Subject to fulfillment or waiver (where permissible) of the conditions set forth in ARTICLE VII, at the Closing, Buyer shall deliver to Seller all of the following:

(a) Good Standing Certificate. A certificate of the organization, valid existence and good standing of Buyer as a domestic corporation in the jurisdiction of its organization as of a date no more than five (5) Business Days prior to the Closing Date.

(b) Closing Certificate. A certificate signed on behalf of Buyer by an executive officer to the effect that such executive officer has read Section 7.3 of this Agreement and the conditions set forth in Section 7.3(a) and Section 7.3(b) have been satisfied.

(c) Consents. Copies (or other evidence) of all valid consents, waivers, clearances, approvals, permits or authorizations of, filings or registrations with, or notifications to, all Governmental Entities required to be obtained, filed or made by Buyer in satisfaction of the conditions set forth in Section 7.1 and Section 7.3.

(d) Severance Payment. Payment by Wire Transfer for the severance benefits pursuant to Section 6.3.

(e) Secretary's Certificate. A certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer certifying (i) the names and signatures of the officers of Buyer authorized to sign this Agreement and the other documents to be delivered hereunder and (ii) that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Buyer authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, and that all such resolutions are in full force and effect and are all the resolutions duly adopted in connection with the transactions contemplated hereby.

(f) Trademark License. The Trademark License executed by Buyer.

(g) Other Documents. Such other documents or instruments required to be delivered by Buyer at or prior to the Closing pursuant to ARTICLE VII as Seller shall request that are reasonably necessary to consummate the transactions contemplated by this Agreement.

Section 2.6 Post-Closing Adjustments.

(a) Within sixty (60) days after the Closing Date, Buyer shall deliver to Seller a report (the "Purchase Price Adjustment Report"), showing in detail its final determination of the Purchase Price and allocation of the Purchase Price between the Companies, together with any documents substantiating the Purchase Price and allocation proposed in the Purchase Price Adjustment Report. The Purchase Price Adjustment Report: (i) shall be prepared using the same format and the same methodologies required to be used in preparing the Estimated Purchase Price Statement; and (ii) shall clearly set forth and describe any variations between the Estimated Purchase Price and allocation, and Buyer's calculation of the Purchase Price and allocation. Notwithstanding any other provision of this Section 2.6, the amount of the Reserves set forth in the Estimated Purchase Price Statement shall not be subject to adjustment under this Section 2.6, except as may be necessary to correct (i) any mathematical error or (ii) any error resulting from Seller's failure to use the accounting principles, procedures, policies and methods required to be used in preparing the Estimated Purchase Price Statement. For the purposes of clarity, the parties agree that the only changes that may be made to the allocation of the Purchase Price set forth on Exhibit D pursuant to this Section 2.6 are changes directly related to and reflecting the appropriate allocation between the Companies of any adjustments to the Purchase Price made pursuant to this Section 2.6, and shall not otherwise include any changes to the methodology used in preparing such allocation.

(b) Within thirty (30) days after its receipt of the Purchase Price Adjustment Report, or such other time as is mutually agreed in writing by the parties (the "Notice Period"), Seller shall deliver in writing to Buyer either (i) its agreement with the calculation of the Purchase Price and allocation as set forth in the Purchase Price Adjustment Report or (ii) its dispute thereof, specifying in reasonable detail the nature of its dispute (such items in dispute, the "Disputed Items," and such notice of the Disputed Items, the "Dispute Notice"). If Seller fails to deliver to Buyer a Dispute Notice within the Notice Period, then the Purchase Price and allocation of the Purchase Price as set forth in the Purchase Price Adjustment Report shall be final and binding on the parties and shall constitute the final Purchase Price and allocation. If Seller delivers to Buyer a Dispute Notice prior to the expiration of the Notice Period, then Buyer and Seller shall cooperate and each shall cause its Representatives to cooperate with the other party and its Representatives in good faith to seek to resolve promptly the Disputed Items. Any Disputed Items that are agreed to in writing by Buyer and Seller within thirty (30) days of receipt

of the Dispute Notice by Buyer, or such other time as is mutually agreed in writing by Buyer and Seller (the "Dispute Period"), shall be final and binding upon Buyer and Seller and become part of the calculation of the Purchase Price. If at the end of the Dispute Period, Buyer and Seller have failed to reach agreement with respect to any Disputed Items, then such Disputed Items shall be promptly submitted to the Independent Accounting Firm. The Independent Accounting Firm may consider only those Disputed Items that Buyer and Seller have been unable to resolve within the Dispute Period, and must resolve the Disputed Items in accordance with the terms and provisions of this Agreement. Each party may submit a written statement of its position to the Independent Accounting Firm within five (5) Business Days of its appointment, with a copy of such written statement simultaneously sent to the other party. Neither party shall have any ex-parte communication with the Independent Accounting Firm. The determination of the Independent Accounting Firm must neither be more favorable to Buyer than reflected in the Purchase Price Adjustment Report nor more favorable to Seller than reflected in the Dispute Notice (excluding the allocation of expenses incurred in connection with the resolution of the Disputed Items). The Independent Accounting Firm shall deliver to Buyer and Seller, as promptly as practicable and in any event within thirty (30) days after its appointment, a written report setting forth the resolution of each Disputed Item and the resulting final Purchase Price and allocation, determined in accordance with the terms of this Agreement. The conclusions in such report shall be final and binding upon Buyer and Seller. The thirty (30) day period for delivering the written report may be extended (i) by the mutual written consent of Buyer and Seller or (ii) by the Independent Accounting Firm for up to thirty (30) days for good cause shown. Each of Buyer and Seller shall bear all of the fees and costs incurred by it in connection with the resolution of the Disputed Items, except that all fees and expenses relating to the foregoing work by the Independent Accounting Firm shall be borne in inverse proportion to the degree that each prevails on the Disputed Items, which proportionate allocation will also be determined by the Independent Accounting Firm.

(c) If the Estimated Purchase Price exceeds the final Purchase Price as determined in accordance with Section 2.6(b), then Seller shall pay to Buyer or, if the final Purchase Price exceeds the Estimated Purchase Price, then Buyer shall pay to Seller, an amount equal to the absolute value of the difference between the Estimated Purchase Price and the final Purchase Price (the "Final Adjustment Payment"). The Final Adjustment Payment shall be due and payable on the second (2nd) Business Day after Buyer and Seller agree on the Purchase Price or the parties are provided notice of any final determination of the Purchase Price, in each case as agreed or determined in accordance with this Section 2.6 (the "Settlement Date").

(d) The Final Adjustment Payment shall be made by Wire Transfer to the account or accounts of the party entitled to receive such payment, which account or accounts shall be designated by Buyer to Seller or by Seller to Buyer, as the case may be, not less than two (2) Business Days prior to the Settlement Date. The Final Adjustment Payment shall bear interest from and including the Closing Date but excluding the date of payment at the Federal Funds Rate and such interest shall be payable at the same time as the payment of the Final Adjustment Payment.

(e) Any payments made pursuant to Section 2.6 shall be treated as an adjustment to the Purchase Price by the parties for Tax purposes, unless otherwise required by Applicable Law.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as follows:

Section 3.1 Organization, Standing and Corporate Power. Each of the Companies and each of the Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite corporate power and authority to own its assets and carry on its business as now being conducted. Each of the Companies and each of the Subsidiaries is duly qualified to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary (and each such jurisdiction is listed in Section 3.1 of the Disclosure Schedule), other than in such jurisdictions where the failure to be so qualified has not had and would not reasonably be expected to have a Company Material Adverse Effect. Seller has made available to Buyer true, correct and complete copies of the certificates of incorporation, charter, bylaws and other similar organizational documents of each of the Companies and each of the Subsidiaries.

Section 3.2 Capital Structure; Certain Indebtedness. The authorized capital stock of: (i) HSBC DE consists of Six Thousand (6,000) shares of common stock, par value Seven Hundred Dollars ($700.00) per share, all of which shares are issued and outstanding; and (ii) HLIC DE consists of One Hundred Thousand and One (100,001) shares of common stock, par value Ten Dollars ($10.00) per share, all of which shares are issued and outstanding. Except as set forth in the preceding sentence, no shares of capital stock of either of the Companies are issued, reserved for issuance or outstanding. Seller is the record and beneficial owner of the Shares, free and clear of all pledges, restrictions, claims, liens, charges, encumbrances, equitable interests, options, rights of first refusal and security interests of any kind (collectively, "Liens"). Upon consummation of the transactions contemplated by this Agreement, Buyer will own all of the Shares, free and clear of all Liens. The Shares have been duly authorized and validly issued and are fully paid and non-assessable and not subject to, or issued in violation of any, preemptive rights. There are no shares of the Companies' capital stock held in the Companies' treasury. There are no outstanding options, warrants, conversion, exchange or other rights or agreements of any kind (other than this Agreement) for the purchase or acquisition from, or the sale or issuance by, Seller or any of its Affiliates of any shares of capital stock or Voting Debt of, or any other interest in, each of the Companies, and no authorization therefor has been given. There are no bonds, debentures, notes or other indebtedness having voting rights (or that are convertible or exchangeable into securities having such rights) in or of the Companies or any of the Subsidiaries (collectively, "Voting Debt"). Neither Company has outstanding or authorized any stock appreciation, phantom stock, profit participation or similar rights. There are no voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of the Shares.

Section 3.3 Subsidiaries. Section 3.3 of the Disclosure Schedule sets forth a true, correct and complete list of each subsidiary of the Companies (each entity required to be so listed a "Subsidiary" and collectively referred to herein as the "Subsidiaries") and sets forth for each such Subsidiary the amount and class of its authorized capital stock, the amount and class of its outstanding capital stock, the record and beneficial owner or owners of its outstanding capital stock and whether any capital stock is held in such Subsidiary's treasury. The capital stock of each of the Subsidiaries is held by the record and beneficial owner or owners identified on Section 3.3 of the Disclosure Schedule free and clear of all Liens. All of the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and are not subject to, or issued in violation of any, preemptive rights. There are no outstanding options, warrants, conversion, exchange or other rights or agreements of any kind for the purchase or acquisition from, or the sale or issuance by, the Companies or any of the Subsidiaries of any shares of capital stock or Voting Debt of, or any other interest in, any of the Subsidiaries, and no authorization therefor has been given. Except for its interests in the Subsidiaries, the Companies do not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity or voting interest (including options, warrants, rights, commitments or arrangements to acquire any such stock or interests) in any Person (other than those Investment Assets acquired and held in accordance with the Investment Guidelines) or otherwise possess, directly or indirectly, the power to direct or cause the direction of the management or policies of any Person. None of the Subsidiaries has outstanding or authorized any stock appreciation, phantom stock, profit participation or similar rights. There are no voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of the shares of capital stock of any Subsidiary.

Section 3.4 Authority. Seller is a Delaware corporation duly incorporated, validly existing and in good standing under the laws of Delaware. Seller has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Seller and no other corporate action or proceeding on the part of Seller or any Affiliate of Seller is necessary (including any shareholder vote). This Agreement has been duly executed and delivered by Seller and, assuming due authorization, execution and delivery by Buyer, constitutes a valid, legal and binding obligation of Seller, enforceable against Seller in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency or other similar laws, now or hereafter in effect, affecting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 3.5 Noncontravention; Consents. The execution and delivery of this Agreement by Seller do not and, except as disclosed in Section 3.5 of the Disclosure Schedule, the performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated by this Agreement will not (i) (x) conflict with, be prohibited by, or require any approval that has not already been obtained under, any of the provisions of the certificate of incorporation or by-laws of each of the Companies or the comparable organizational documents

of any of the Subsidiaries or of Seller, (y) subject to the matters referred to in the next sentence, conflict with, result in a breach of or default (with or without notice or lapse of time, or both) under, be prohibited by, require any approval, consent or other action under, give rise to a right of termination, amendment, acceleration or cancellation under, or result in the creation of any Lien on any property or asset of the Companies or any of the Subsidiaries under any Contract to which the Companies or any of the Subsidiaries (1) is a party or otherwise bound, or (2) will be a party to or otherwise will be bound immediately following the consummation of the Business Re-Alignment Transactions or (z) subject to the matters referred to in the next sentence, contravene, be prohibited by, or require approval or consent under, any Applicable Law or Governmental Order applicable to Seller, the Companies or any of the Subsidiaries, which, in the case of clauses (y) and (z) above, would have or reasonably be expected to have a Company Material Adverse Effect, or (ii) result in the creation or imposition of any Lien, with or without the giving of notice or lapse of time or both, upon the Shares. No consent, approval or authorization of, or declaration or filing with, or notice to, any Governmental Entity, is required by or with respect to Seller, the Companies or any of the Subsidiaries in connection with the execution, delivery and performance of this Agreement by Seller or the consummation by Seller, the Companies or any of the Subsidiaries of the transactions contemplated hereby, except for (i) the filing requirement(s) applicable to the transactions contemplated by this Agreement under competition, antitrust or similar Laws of Canada, (ii) the approvals, filings and notices required under the Insurance Laws of the jurisdictions set forth in Section 3.5 of the Disclosure Schedule, (iii) such other consents, approvals, authorizations, declarations, filings or notices as are set forth in Section 3.5 of the Disclosure Schedule and (iv) such other consents, approvals, authorizations, declarations, filings or notices, the failure of which to be obtained or made would not have or reasonably be expected to have a Company Material Adverse Effect.

Section 3.6 SAP Financial Statements. The (i) audited statutory Annual Statement, including the Statement of Assets, Liabilities, Surplus and Other Funds of each Company and each Subsidiary as of December 31, 2011 and related Statement of Income and Cash Flow for the year then ended (the "Annual SAP Financial Statements") and (ii) unaudited statutory Quarterly Statement, including the Statement of Assets, Liabilities, Surplus and Other Funds of each Company and each Subsidiary as of June 30, 2012 and related Statement of Income and Cash Flow for the six month period then ended, including the exhibits, schedules and notes thereto (the "Interim SAP Statements" and, collectively with the Annual SAP Financial Statements and any additional statutory Quarterly Statements of any of the Companies and Subsidiaries as of a date occurring, or for a calendar quarter or year ending, on or after June 30, 2012 but prior to the Closing Date, the "SAP Financial Statements"), in each case as filed with the Governmental Entity charged with supervision of insurance or reinsurance companies of such Company's or Subsidiary's jurisdiction of domicile, including each jurisdiction in which any of the Companies or Subsidiaries is deemed pursuant to Applicable Law to be commercially domiciled (each referred to herein as an "Insurance Regulator"), were prepared in conformity with statutory accounting practices prescribed by Applicable Law or permitted by such Insurance Regulator applied on a consistent basis ("SAP") and present fairly, to the extent required by and in conformity with SAP, except as set forth in the notes, exhibits or schedules thereto, in all material respects the statutory financial condition of such Company or Subsidiary, as applicable, at their respective dates and the results of operations, cash flows and changes in capital and surplus of such Company or Subsidiary for each of the periods then ended (subject, in the case of

the Interim SAP Statements, to normal and recurring year-end adjustments as permitted by SAP), in each case, except as set forth in Section 3.6 of the Disclosure Schedule. Except as set forth in Section 3.6 of the Disclosure Schedule, the SAP Financial Statements complied in all material respects with all applicable statutes, laws, ordinances, rules, regulations and codes ("Applicable Laws") and Governmental Orders when filed, and, to the Knowledge of Seller, no material deficiency has been asserted by a Governmental Entity that has not been cured or otherwise resolved to the satisfaction of such Governmental Entity without imposition of any material penalty, condition or obligation on any Company or Subsidiary. The balance sheets and income statements included in the Annual SAP Financial Statements have been audited by independent auditors. Seller has made available to Buyer true, correct and complete copies of the SAP Financial Statements, including true and complete copies of each audit opinion related thereto.

Section 3.7 No Undisclosed Liabilities. There are no liabilities, obligations or commitments of the Companies or any of the Subsidiaries of any kind (whether asserted, matured, accrued, absolute, contingent or otherwise), other than (i) those provided for or reflected in the SAP Financial Statements or in the notes thereto, (ii) those disclosed in, or otherwise contemplated by, this Agreement (including Section 3.7 of the Disclosure Schedule), (iii) those for losses, loss adjustment expenses and unearned premiums arising under policies or contracts of insurance or reinsurance written or assumed by the Companies and the Subsidiaries, and (iv) those incurred in the ordinary course of business consistent with past practice since December 31, 2011 that individually are less than $250,000.

Section 3.8 Absence of Certain Changes or Events. Except as disclosed in Section 3.8 of the Disclosure Schedule, since December 31, 2011, the Companies and the Subsidiaries have conducted their business in the ordinary course and there has not occurred (i) any event or change that has had, or would reasonably be expected to have, a Company Material Adverse Effect, (ii) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of the Companies' outstanding capital stock or any capital stock of the Subsidiaries (other than dividends or distributions payable only to the Companies or the Subsidiaries), or (iii) any change in accounting, underwriting, claims handling or investment methods, principles or practices by the Companies or any of the Subsidiaries materially affecting its business, assets or liabilities, except insofar as may have been required by Applicable Law or required by a change in applicable SAP.

Section 3.9 Benefit Plans. Since January 1, 2009, neither the Companies nor any Subsidiary has had any employees and the business and operations of the Company and the Subsidiaries have been conducted by employees of Seller or its Affiliates (other than the Companies or any of the Subsidiaries). Section 3.9 of the Disclosure Schedule lists all of the Employee Benefit Plans sponsored, maintained, contributed to, or required to be contributed to by Seller or any trade or business (whether or not incorporated) that together with Seller is treated as a single employer under Section 414 of the Code (an "ERISA Affiliate") and in which any Employee is eligible to participate (the "Seller Benefit Plans"). Neither Seller nor any of its ERISA Affiliates has incurred or expects to incur any liability (other than normal claims for benefits) under any provision of ERISA (including, without limitation, Title IV thereof) or other Applicable Law relating to any Employee Benefit Plan that could become a liability of Buyer as a successor to the business of the Companies and/or the Subsidiaries or otherwise. Each Seller

Benefit Plan has been established, maintained and administered in compliance in all material respects with its terms and complies in all material respects, both in form and operation, with the applicable provisions of ERISA (including without limitation the funding and prohibited transactions provisions thereof), the Code, and all other Applicable Laws. Each Seller Benefit Plan which is intended to be qualified within the meaning of Code Section 401(a) is so qualified and nothing has occurred that could reasonably be expected to cause the loss of such qualification. Seller has made available to Buyer true and complete copies of the most recent summary plan descriptions and annual enrollment guides with respect to Seller Benefit Plans. Except as described in Section 3.9 of the Disclosure Schedule, (i) no Seller Benefit Plan provides welfare benefits, including, without limitation, death or medical benefits (through insurance or otherwise) with respect to Employees or former Employees beyond their retirement or other termination of service other than coverage mandated by Applicable Law, (ii) none of the Companies or Subsidiaries is a party to any plan, agreement or other arrangement that will or could result in any compensation amount the deductibility of which is disallowed under Section 280G or 162(m) of the Code or any amount that is subject to the gross income inclusion requirements of Section 409A(a)(1) of the Code, and (iii) neither the execution of this Agreement nor any of the transactions contemplated by this Agreement could reasonably be expected to (either alone or upon the occurrence of any additional or subsequent events) result in "excess parachute payments" (within the meaning of Section 280G(b) of the Code) to any Employee. Buyer, the Companies and the Subsidiaries will not have any obligation to contribute to a multiemployer plan as described in Section 3(37) of ERISA or pension plan subject to Title IV of ERISA in which Seller or any of its ERISA Affiliates participate or to which Seller or any of its ERISA Affiliates contribute.

Section 3.10 Taxes; Unclaimed Property. Except as disclosed in Section 3.10 of the Disclosure Schedule:

(a) All Tax Returns required to be filed (taking into account extensions thereof) by the Companies and each of the Subsidiaries (excluding for this purpose any such Tax Return required to be filed by any consolidated, combined, unitary or other similar group which includes any entity other than the Companies or any Subsidiary) have been duly and timely filed.

(b) All Taxes due and owing by the Companies or any Subsidiary (whether or not shown on any Tax Return) have been timely and fully paid. To the extent payment of any Taxes that have accrued is not yet due, the amount of such accrued Taxes is properly and fully reflected or otherwise taken into account in the SAP Financial Statements or, in the case of periods since the end of the accounting period covered by the most recent SAP Financial Statements, on the Companies' or the Subsidiaries' books and records.

(c) Since December 31, 2011, no Taxes have accrued with respect to the Companies or any of the Subsidiaries other than Taxes arising in the ordinary course of business.

(d) All such Tax Returns (as described in clause (a) above) are true, correct and complete in all material respects.

(e) The Companies and each of the Subsidiaries have, in all material respects, withheld, and paid over as required, each Tax required to have been withheld in connection with amounts paid or owing to any employee, independent contractor, creditor, customer, shareholder or other third party.

(f) No deficiencies for any Taxes have been proposed, asserted or assessed in writing against the Companies or any of the Subsidiaries, which have not been paid or otherwise settled.

(g) No federal, state, local or foreign audit, suit, proceeding, investigation, claim, examination or other administrative proceeding or court proceeding exists, has been initiated or has been threatened in writing with regard to any Taxes or Tax Returns of the Companies or the Subsidiaries.

(h) No Liens for Taxes exist with respect to any of the assets or properties of the Companies or any of the Subsidiaries (including any assets or properties that will be transferred to the Companies or any of the Subsidiaries in the Business Re-Alignment Transactions), except for Liens for Taxes that are (i) not yet due and payable, or (ii) being contested in good faith by appropriate proceedings and which are reflected or taken into account in the SAP Financial Statements or, in the case of periods since the end of the accounting period covered by the most recent SAP Financial Statements, on the Companies' or the Subsidiaries' books and records.

(i) No claim has been made in writing by any Taxing Authority of a jurisdiction where any Company or Subsidiary does not file Tax Returns, or a particular kind of Tax Return, that such Company or Subsidiary should have filed such Tax Return or Returns or is or may be subject to Taxes in that jurisdiction.

(j) None of the Companies or Subsidiaries has agreed to make, or is required to make, any adjustment under Section 481(a) of the Code or any similar provision of state, local or foreign Tax law by reason of a change in accounting method or otherwise; there is no application pending with any Taxing Authority requesting permission for any change in any accounting method for Tax purposes by any such entity; and no Taxing Authority has proposed any such adjustment or change in accounting method.

(k) None of the Companies or Subsidiaries has entered into a closing agreement pursuant to Section 7121 of the Code or similar agreement with any Taxing Authority relating to Taxes of the Companies or any of the Subsidiaries that will bind either Company or any of the Subsidiaries for any taxable period ending after the Closing Date.

(l) None of the Companies or Subsidiaries has requested a ruling in respect of Taxes during the past five (5) years from any Governmental Entity, and no such ruling has been issued with respect to either Company or any of the Subsidiaries that will bind either Company or any of the Subsidiaries for any taxable period ending after the Closing.

(m) Neither of the Companies nor any of the Subsidiaries has granted any consent to waive or extend any statute of limitations with respect to, or any extension of a period for the assessment of, or any power of attorney with respect to, any Tax.

(n) Neither of the Companies nor any Subsidiary has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (i) in the two (2) years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the transactions contemplated by this Agreement.

(o) Neither of the Companies nor any of the Subsidiaries has participated in a "reportable transaction" within the meaning of Section 6707A(c)(1) of the Code and Treasury Regulations Section 1.6011-4(b), but excluding from such definition any transaction identified in Treasury Regulations Section 1.6011-4(b)(5).

(p) Neither of the Companies nor any of the Subsidiaries will be required to include in gross income of a taxable period ending after the Closing Date income or gain attributable to cash received, or an installment sale that was consummated, in a prior taxable period or to an election under Section 108(i) of the Code that was made with respect to a prior taxable period.

(q) No excess loss account, within the meaning of Treasury Regulations Section 1.1502-19, or similar account or amount under any state or local Tax law, exists with respect to any of the Subsidiaries.

(r) Neither of the Companies nor any of the Subsidiaries has any deferred gain or loss arising from a deferred intercompany transaction, within the meaning of Treasury Regulations Section 1.1502-13, or with respect to the stock or obligations of any member of an affiliated group, as provided for in Treasury Regulations Section 1.1502-13.

(s) Neither of the Companies nor any of the Subsidiaries has engaged in any operations or activities that are subject to reporting obligations under Section 999 of the Code (relating to international boycotts).

(t) The Companies and each of the Subsidiaries have complied in all material respects with all Applicable Laws relating to the accounting for and paying over of unclaimed or abandoned funds or other property.

(u) HLIC DE and its Subsidiaries file a federal consolidated income tax return as an affiliated group (within the meaning of Code Section 1504((a)(1)) with HLIC DE as the common parent of such group. HLIC DE and its Subsidiaries file a unitary income Tax Return in Illinois that includes HSBC DE and ICOM Limited, a Bermuda insurance company treated as a United States insurance company pursuant to Section 953(d) of the Code, as members of the unitary group (and no other members) (the "HLIC Illinois Return"). HSBC DE files a federal consolidated income Tax Return as a member of the affiliated group (as defined above) of which HSBC North America Holdings, Inc. is the common parent (the "Seller Affiliated Group"). All material Tax Returns required to be filed (taking into account extensions thereof) by the Seller Affiliated Group (or any similar consolidated, combined or unitary group for state, local, or non-U.S. Tax purposes) for each taxable period during which HSBC DE was a member of such

group have been duly and timely filed. All material Taxes owed by the Seller Affiliated Group (or any such consolidated, combined or unitary group) for each such taxable period have been timely and fully paid. Except with respect to the HLIC Illinois Return, neither HLIC DE nor any of its Subsidiaries is a party to or bound by any Tax sharing, Tax allocation, Tax indemnity or similar agreement, arrangement or understanding that includes any entity other than HLIC DE or its Subsidiaries. HSBC DE is a party to a Tax sharing agreement with the members of the Seller Affiliated Group, and is not a party to or bound by any other Tax sharing, Tax allocation, Tax indemnity or similar agreement, arrangement or understanding. Except with respect to the Seller Affiliated Group or the HLIC Illinois Return, neither of the Companies nor any of the Subsidiaries has any liability for the Taxes of any Person other than the Companies or any of the Subsidiaries under Treasury Regulation Section 1.1502-6 (or any corresponding or similar provision of state, local, or non-U.S. Tax law), as a transferee or successor, by agreement, contract or otherwise. Neither of the Companies nor any of the Subsidiaries has been a member of any group that filed consolidated, combined or unitary Tax Returns with any member other than the Companies or any Subsidiary other than those identified in this Section 3.10(u) for any taxable period as to which the statute of limitations for assessment of Taxes is still open.

Section 3.11 Permits; Compliance with Applicable Laws. Except as disclosed in Section 3.11 of the Disclosure Schedule, each of the Companies and the Subsidiaries has and maintains in full force and effect all federal, state, municipal, local and foreign governmental approvals, authorizations, consents, franchises, licenses, permits and rights (collectively, "Permits") necessary for it to own, lease or operate its properties and assets and to carry on its business as now conducted, except where the failure to maintain such Permits in full force and effect would not reasonably be expected to have a Company Material Adverse Effect. Except as disclosed in Section 3.11 of the Disclosure Schedule, the Companies and the Subsidiaries are, and since January 1, 2010 have been, in material compliance with all Applicable Laws, Governmental Orders and the terms of the Permits and no revocation, lapse, limitation, suspension or cancellation of any of the Permits is pending or, to the Knowledge of Seller, has been threatened in writing. Except as set forth in Section 3.11 of the Disclosure Schedule, since January 1, 2010, none of the Companies or the Subsidiaries has received written notice from any Governmental Entity asserting material noncompliance with any Applicable Law or Governmental Order. Each of the Companies and the Subsidiaries have established and are in material compliance with commercially reasonable security programs and policies to protect (i) the security, confidentiality and integrity of transactions executed through their computer systems, including encryption and/or other security protocols and techniques when appropriate; and (ii) the security, confidentiality and integrity of all confidential or proprietary data. Each of the Companies and Subsidiaries has employed commercially reasonable and appropriate administrative, physical and technical safeguards to protect the confidentiality, availability and integrity of personal and health information to which they have access. Since January 1, 2010, none of the Companies or Subsidiaries has suffered a material security breach with respect to their data or systems or has notified customers or employees of any information security breach pursuant to Applicable Law.

Section 3.12 Litigation. Except as disclosed in Section 3.12 of the Disclosure Schedule, (a) there is no suit, action, cause of action, demand, proceeding, litigation, citation, summons, subpoena, investigation or arbitration of any nature, civil, criminal, administrative, regulatory or otherwise at law or in equity (each, an "Action") (excluding any claim made under policies or contracts of insurance written or assumed by any of the Companies or a Subsidiary that has case reserves of less than $1,000,000) pending or, to the Knowledge of Seller, threatened in writing against any of the Companies or Subsidiaries or any of their respective properties or assets that seeks monetary damages in excess of $500,000, and (b) there are no Governmental Orders outstanding against any of the Companies or Subsidiaries or any of their respective properties or assets (i) that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (ii) that prohibit or restrict any of the Companies or the Subsidiaries from operating their respective businesses as currently operated or (iii) that would reasonably be expected to prevent or materially delay the consummation of the transactions contemplated by this Agreement. Except as disclosed in Section 3.12 of the Disclosure Schedule, there is no Action pending or, to the Knowledge of Seller, threatened in writing against or affecting Seller, any of the Companies or Subsidiaries or any of their respective properties or assets that (a) seeks to restrain or enjoin the consummation of any of the transactions contemplated by this Agreement or (b) would reasonably be expected to materially impair or delay the ability of Seller to consummate any of the transactions contemplated by this Agreement. None of the Companies or Subsidiaries has received notice of any pending investigation by any Governmental Entity regarding any accounting, internal control or disclosure practices of the Companies or any of the Subsidiaries.

Section 3.13 Reserves. Seller has made available to Buyer true, correct and complete copies of all actuarial reports and studies prepared by actuaries, independent or otherwise, in the ordinary course of business relating to the business and operations of any of the Companies or Subsidiaries, including reports and studies addressing loss reserves, reserves for claims, losses (including incurred but not reported losses), loss adjustment expenses (whether allocated or unallocated), unearned premiums and uncollectible reinsurance of any of the Companies or Subsidiaries as of any date on or after September 30, 2010, excluding customized reports and analyses prepared specifically for other prospective buyers of the Companies. The information and data furnished by Seller, the Companies and the Subsidiaries to their actuaries in connection with the preparation of such actuarial reports were accurate in all material respects for the periods covered by such reports. All reserve liabilities, including reserves for claims, losses (including incurred but not reported losses), loss adjustment expenses (whether allocated or unallocated), unearned premiums and uncollectible reinsurance, as established or reflected on the SAP Financial Statements, were determined in all material respects in accordance with generally accepted actuarial standards consistently applied, were based on actuarial assumptions that were in accordance with those called for in relevant policy and contract provisions, are fairly stated in accordance with sound actuarial principles, determined in accordance with the provisions of insurance policies and contracts of each of the Companies and Subsidiaries, and are in compliance with the requirements of SAP and Applicable Laws. Notwithstanding any other provision of this Agreement (including Section 3.6 and Section 3.7), Seller is not making any representations to Buyer, express or implied, in or pursuant to this Agreement or otherwise concerning the adequacy or sufficiency of the reserves for losses, loss adjustment expenses or uncollectible reinsurance of the Companies, of any of the Subsidiaries, or of the Companies and the Subsidiaries taken as a whole.

Section 3.14 Material Contracts. Section 3.14 of the Disclosure Schedule contains a complete and correct list of all Material Contracts. The term "Material Contracts" means all of the following types of Contracts (i) to which any of the Companies or any of the Subsidiaries is a party (excluding any Insurance Contract written, assumed or ceded) or by which any of them or any of their assets are bound, or (ii) to which any of the Companies or any of the Subsidiaries will be a party or by which any of them or their assets will be bound following the consummation of the Business Re-Alignment Transactions:

(a) Contracts with any present or former officer, director, trustee, employee or consultant of any of the Companies or Subsidiaries (including employment agreements and agreements evidencing loans or advances to any such Person or any Affiliate of such Person), other than Contracts that by their terms may be terminated by a Company or a Subsidiary with notice of not more than sixty (60) days without payment of any amount;

(b) Contracts containing any provision or covenant limiting the ability of any of the Companies or Subsidiaries to engage in any line of business, the manner in which business is to be conducted, to compete with any Person or to do business with any Person or in any location or geographic area;

(c) Contracts relating to the borrowing of money or extension of credit to or by any of the Companies or Subsidiaries or the direct or indirect guarantee by any of the Companies or Subsidiaries of any obligation of any Person for borrowed money or other financial obligation of any Person or any other liability of any of the Companies or Subsidiaries in respect of indebtedness for borrowed money, excluding any Affiliate Contracts relating to the borrowing of money, extension of credit written, guarantee or other liability of any of the Companies or Subsidiaries;

(d) Contracts for real property used in the conduct of the business of any of the Companies or Subsidiaries and all other Contracts providing for annual rental payments in any case in excess of $250,000 (whether the Company or Subsidiary is lessor, lessee, licensor or licensee);

(e) agency, broker, selling, marketing, third-party administrator, adjuster, underwriter, management, wholesaler, producer, reinsurance intermediary, distributor or similar Contracts ("Agency Contracts") involving payments in 2011, or which, to the Knowledge of Seller, are reasonably likely to involve payments in 2012, in excess of $250,000;

(f) Contracts with Seller or an Affiliate of Seller or with a third Person under which Seller, such Affiliate or such third Person manages assets of any of the Companies or Subsidiaries;

(g) Contracts under which Persons other than Seller or Affiliates of Seller provide material information technology products or services to any of the Companies or Subsidiaries and under which the annual fees in respect thereof exceed $500,000;

(h) Contracts relating to the acquisition, lease or disposition of material assets or properties of any Person or any capital stock or other equity interest of any Person, in each case that was entered into after January 1, 2010 or under which any of the Companies or Subsidiaries has any executory indemnification or other continuing obligations;

(i) Contracts primarily providing for the indemnification of any Person or the assumption of any liability of any Person, including off balance sheet arrangements;

(j) Contracts providing for future payments that are conditioned on, or that cause an event of default as a result of, a change of control of any of the Companies or the Subsidiaries or any similar event;

(k) Contracts providing for any joint venture, partnership or similar arrangement by the Company or Subsidiary;

(l) Contracts relating to the issuance of securities of any Company or Subsidiary;

(m) Contracts with any Governmental Entity;

(n) Contracts obligating any Company or Subsidiary to conduct business on an exclusive or preferential basis with any third Person or upon consummation of the transactions contemplated by this Agreement will obligate Buyer or any Company or Subsidiary to conduct business on an exclusive or preferential basis with any third Person;

(o) Contracts prohibiting the payment of dividends or distributions in respect of the capital stock of any Company or Subsidiary, prohibit the pledging of the capital stock of any Company or Subsidiary or prohibit the issuance of any guarantee by any Company or Subsidiary; and

(p) any other Contract involving aggregate payments or incurred costs or liabilities reasonably expected to be in excess of $500,000 after the date of this Agreement.

Each Material Contract is, or following the Business Re-Alignment Transactions will be, valid, legal and binding on the Company or Subsidiary party thereto or bound thereby in accordance with its terms and, to the Knowledge of Seller, each other party thereto and is or will be, as applicable, in full force and effect, except for any such failure to be valid, legal and binding or to be in full force and effect that has not had and would not reasonably be expected to have a Company Material Adverse Effect. Except as set forth on Section 3.14 of the Disclosure Schedule, none of Seller, any Affiliate of Seller, the Companies or the Subsidiaries has provided or received written notice of intent to terminate any Material Contract and there exists no breach or event of default (or allegation of a breach or event of default) on the part of Seller, any Affiliate of Seller, either Company or any Subsidiary with respect to any Material Contract, or to the Knowledge of Seller, by any other party thereto, and no condition exists or event has occurred that with the giving of notice or passage of time or both would constitute a violation or default thereunder by Seller, any Affiliate of Seller, either Company or any Subsidiary or, to the Knowledge of Seller, any other party thereto, result in a termination thereof or permit the acceleration or other change of any material right or obligation or loss of a material right thereunder, or which has had or would reasonably be expected to have a Company Material

Adverse Effect. Except as set forth on Section 3.14 of the Disclosure Schedule, no consent by, notice to or approval from any third party is required under any of the Material Contracts as a result of or in connection with the execution, delivery or performance of this Agreement and the consummation of the transactions contemplated herein.

Section 3.15 Insurance Regulatory Matters. Seller has made available to Buyer true and complete copies of all examination reports (and has notified Buyer of any pending examinations) conducted by an Insurance Regulator with respect to any Company or any Subsidiary that have been finalized since September 30, 2010, unless the most recent examination report for a Company or Subsidiary was received prior to that date, in which case a true and complete copy of each such earlier examination report. Except as set forth in Section 3.15 of the Disclosure Schedule, since September 30, 2010, no violations material to the financial condition of any Company or any Subsidiary have been asserted in writing by any Insurance Regulator, other than any violation which has been cured or otherwise resolved to the satisfaction of such Insurance Regulator without imposition of any material penalty, condition or obligation on any Company or Subsidiary.

Section 3.16 Technology and Intellectual Property.

(a) Except as disclosed in Section 3.16(a) of the Disclosure Schedule and except as has not had and would not reasonably be expected to have a Company Material Adverse Effect, the Companies and the Subsidiaries (i) exclusively own or possess all right, title and interest in, or have valid, enforceable rights or licenses to use, the patents, trademarks, service marks, trade names, brand names, logos, Internet domain names, copyrights (including any registrations or applications to any of the foregoing), computer programs, trade secrets, know-how and patentable inventions that are used to carry on their businesses as now conducted (the "Intellectual Property") free and clear of all Liens, and (ii) will continue to exclusively own or possess all right, title and interest in, or have valid enforceable rights or licenses to use the Intellectual Property immediately following the Business Re-Alignment Transactions and the Closing. Each of Seller, all Affiliates of Seller, the Companies and the Subsidiaries has taken reasonable steps to maintain and protect the Intellectual Property, except where the failure to do so would not reasonably be expected to have a Company Material Adverse Effect. There are no material Actions pending, or to the Knowledge of Seller, threatened in writing: (i) alleging any infringement, misappropriation or violation of the rights of any third party with respect to any intellectual property of such Person or (ii) challenging the validity, enforceability or ownership of the Intellectual Property owned or exclusively licensed by Seller, any Affiliate of Seller, the Companies or the Subsidiaries.

(b)(i) To the Knowledge of Seller, the conduct of the business of the Companies and the Subsidiaries has not infringed, misappropriated or violated any intellectual property of any third party, except to the extent that such infringement, misappropriation or violation, if determined to be unlawful, would not reasonably be expected to have a Company Material Adverse Effect, (ii) to the Knowledge of Seller, no third party is infringing, misappropriating or violating the Intellectual Property owned or exclusively licensed by Seller, any Affiliate of Seller, the Companies or the Subsidiaries, and (iii) none of the Intellectual Property owned or exclusively licensed by Seller, any Affiliate of Seller, the Companies or the

Subsidiaries requires any payment for the use of such Intellectual Property to any third party (except for the payment of licensing or maintenance fees that do not exceed $500,000 annually in the aggregate to Persons who are not Affiliates of a Company or Subsidiary).

(c) Section 3.16(c) of the Disclosure Schedule contains a true, correct and complete list of the Intellectual Property owned or exclusively licensed by Seller, any Affiliate of Seller, the Companies or the Subsidiaries that is the subject of a registration or application for registration with a Governmental Entity or Internet domain name registrar (including registration or application number and jurisdiction) and all such registrations or applications for registration are in good standing except as otherwise indicated in Section 3.16(c) of the Disclosure Schedule. Except as set forth in Section 3.16(c) of the Disclosure Schedule, no action must be taken within one hundred eighty (180) days following the Closing, which, if not taken would result in the loss or prejudice of any right with respect to such registrations or applications for registration.

Section 3.17 Reinsurance and Insurance Contracts.

(a) Section 3.17(a) of the Disclosure Schedule sets forth a true and complete list of all material reinsurance, coinsurance or retrocession treaties, agreements, slips, binders, cover notes and similar arrangements in force as of the date of this Agreement to which any of the Companies or Subsidiaries is a party or otherwise bound (each, a "Reinsurance Agreement"). For the avoidance of doubt, a Reinsurance Agreement is "in force as of the date of this Agreement" if the contract term of such Reinsurance Agreement is in effect on the date of this Agreement. Except for such events or circumstances as have not been and could not reasonably be expected to be, individually or in the aggregate, material to the Companies and the Subsidiaries, taken as a whole, with respect to each Reinsurance Agreement: (i) there has been no separate Contract between such Company or Subsidiary and any other party to such Reinsurance Agreement that would under any circumstances reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under any such Reinsurance Agreement, other than inuring Contracts that are explicitly defined in any such Reinsurance Agreement; (ii) for each such Reinsurance Agreement for which risk transfer is not reasonably considered to be self-evident to the extent required by any applicable provisions of SSAP No. 62, applicable SAP, any Insurance Law or other Applicable Law, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment is available for review by the relevant Governmental Entities for such Company or Subsidiary; (iii) the Company or Subsidiary that is a party thereto, and to the Knowledge of Seller, any other party thereto, complies and has complied with any applicable requirements set forth in SSAP No. 62, applicable SAP, any Insurance Law or other Applicable Law; and (iv) such Company or Subsidiary has appropriate controls in place to monitor the use of reinsurance and comply with the provisions of SSAP No. 62, applicable SAP, any Insurance Law or other Applicable Law.

(b) Seller has made available to Buyer all material insurance, reinsurance, coinsurance or retrocession treaties, agreements, slips, binders, cover notes and similar arrangements in force as of the date of this Agreement to which any of the Companies or Subsidiaries is a party or otherwise bound (together with the Reinsurance Agreements, the "Insurance Contracts"). For the avoidance of doubt, an Insurance Contract is "in force as of the date of this Agreement" if the contract term of such Insurance Contract is in effect on the date of this Agreement. Each Insurance Contract is valid and binding on the applicable Company or

Subsidiary, and to the Knowledge of Seller, each other party thereto, and is in full force and effect. Except as set forth in Section 3.17(b) of the Disclosure Schedule, the applicable Company or Subsidiary, and, to the Knowledge of Seller, any other party thereto, has performed all obligations required to be performed by it under each Insurance Contract. None of the Companies or Subsidiaries has received notice of the existence of any event or condition which constitutes, or, after notice or lapse of time or both, will constitute, a default on the part of such Company or Subsidiary under any Insurance Contract. To the Knowledge of Seller, there are no events or conditions which constitute, or, after notice or lapse of time or both, will constitute, a default on the part of any counterparty under such Insurance Contract. No Company or Subsidiary that is party to an Insurance Contract and, to the Knowledge of Seller, no counterparty under an Insurance Contract is insolvent or the subject of a rehabilitation, liquidation, conservatorship, receivership, bankruptcy or similar proceeding.

(c) Except as set forth in Section 3.17(c) of the Disclosure Schedule, all Insurance Contracts have been issued, to the extent required by Applicable Law, on forms filed with and approved by all applicable Insurance Regulators and other Governmental Entities, or not objected to by any such Insurance Regulators or Governmental Entities within any period provided for objection, and all such forms comply in all material respects with Applicable Laws. All premium rates with respect to the Insurance Contracts, to the extent required by Applicable Law, have been filed with and approved by all applicable Insurance Regulators and other Governmental Entities or were not objected to by any such Insurance Regulator within any period provided for objection. Except as set forth in Section 3.17(c) of the Disclosure Schedule, since January 1, 2010, all Insurance Contracts issued by the Companies and Subsidiaries have been marketed, sold and issued in compliance in all material respects with all Applicable Laws, all applicable orders and directives of all Insurance Regulators and other Governmental Entities and all written recommendations resulting from market conduct or other examinations or inquiries of insurance regulatory authorities in the respective jurisdictions in which such products have been marketed, issued or sold.

(d) There are no unpaid claims or assessments made against any Company or Subsidiary by any state insurance guaranty associations, funds or similar organizations.

(e) Except as set forth on Section 3.17(e) of the Disclosure Schedule, there is no insurance, reinsurance, coinsurance or retrocession treaties, agreements, slips, binders, cover notes or similar arrangements to which any of the Companies or Subsidiaries is a party or otherwise bound, including any Insurance Contract, that provides coverage in connection with any loan, indebtedness, lease or obligation of any Person when (i) such Person failed to purchase, maintain or renew insurance as required under the terms of the document or agreement giving rise to the loan, indebtedness, lease or obligation, and (ii) the lender or counterparty under such document or agreement, directly or indirectly, purchased or arranged for the purchase of such insurance to insure in whole or in part the amount of the loan, indebtedness, lease or obligation or any property that is the subject of or provided as security for the repayment of such loan, indebtedness, lease or obligation, including "forced-placed" and any similar insurance contract (each such insurance contract, "Forced-Placed Insurance"). Except as set forth on Section 3.17(e) of the Disclosure Schedule, there is no pending, or to the Knowledge of Seller, threatened, Action relating in any way to Forced-Placed Insurance.

Section 3.18 Real Property. The Companies and the Subsidiaries: (i) do not, and, immediately following the consummation of the Business Re-Alignment Transactions, will not, own or hold an option to acquire any real property; and (ii) do not, and immediately following the consummation of the Business Re-Alignment Transactions, will not, hold a leasehold interest in any real property.

Section 3.19 Brokers. No broker, investment banker, financial advisor or other Person, other than Evercore Partners Inc. and HSBC Securities (USA) Inc., the fees and expenses of which will be paid by Seller, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Seller or the Companies or any of their Affiliates.

Section 3.20 Affiliate Arrangements and Intercompany Accounts. Section 3.20 of the Disclosure Schedule contains a true and complete list of (a) all Contracts between any of the Companies or any of the Subsidiaries, on the one hand, and Seller or any of its Affiliates (other than the Companies or the Subsidiaries), on the other (the "Affiliate Contracts"), and (b) all intercompany accounts receivable or payable (whether or not currently due or payable) between or among any Company or Subsidiary, on the one hand, and Seller or any Affiliate thereof (other than the Companies or the Subsidiaries), on the other (the "Intercompany Accounts").

Section 3.21 Insurance. Section 3.21 of the Disclosure Schedule contains a true and complete list of all liability, property, workers compensation, directors and officers liability, and other insurance Contracts that insure the business, operations, assets, employees, officers or directors of the Companies and the Subsidiaries, other than the Insurance Contracts (the "Insurance Policies"). The Insurance Policies are in full force and effect and shall remain in full force and effect with respect to the Companies and Subsidiaries until the Closing Date.

Section 3.22 Insurance Licenses. Section 3.22 of the Disclosure Schedule contains a true and correct list of all state insurance certificates of authority and all other material approvals, authorizations, consents, franchises, licenses, permits, registrations, certificates, accreditations, qualifications, variances and similar rights to write and/or offer and sell insurance products issued to the Companies and Subsidiaries by any Insurance Regulator or other Governmental Entity (collectively, "Insurance Licenses"). Each Insurance License is in good standing and in full force and effect. Except as disclosed in Section 3.22 of the Disclosure Schedule, the Companies and the Subsidiaries are, and since January 1, 2010 have been, in material compliance with the terms of the Insurance Licenses and no revocation, lapse, limitation, suspension or cancellation of any of the Insurance Licenses is pending or, to the Knowledge of Seller, has been threatened in writing. Seller has delivered or made available to Buyer true and complete copies of each Insurance License issued to a Company or Subsidiary. Each Company and Subsidiary is (i) duly licensed and authorized as an insurance or reinsurance company in its jurisdiction of organization (including each jurisdiction in which it is deemed by Applicable Law to be commercially domiciled), (ii) duly licensed, authorized or otherwise eligible to transact the business of insurance or reinsurance, as applicable, in each other jurisdiction where it is required to be so licensed, authorized or otherwise eligible in order to conduct its business as currently conducted, and (iii) duly licensed, authorized or otherwise eligible in its jurisdiction of organization and each other applicable jurisdiction where it writes each line of insurance or

reinsurance reported as being written in the SAP Financial Statements. Since January 1, 2010, none of the Companies or Subsidiaries has transacted any material amount of insurance business in any jurisdiction requiring any Insurance License therefor in which it did not possess such Insurance License.

Section 3.23 Regulatory Filings. Except as set forth on Section 3.23 of the Disclosure Schedule, the Companies and the Subsidiaries have filed all material reports, statements, documents, certifications, registrations (including registrations with applicable state insurance regulatory authorities as a member of an insurance holding company system), filings or submissions and any supplements or amendments thereto (collectively, the "Regulatory Filings") required by Applicable Law to be filed by it with any Governmental Entity since January 1, 2010. Except as set forth on Section 3.23 of the Disclosure Schedule, the Regulatory Filings were in compliance with Applicable Law in all material respects when filed and, to the Knowledge of Seller, no material deficiencies or violations have been asserted by any Governmental Entity with respect to any Regulatory Filing. Seller has made available to Buyer true and complete copies of all Regulatory Filings submitted since January 1, 2010, in the form (including exhibits, annexes and any amendments thereto) filed with the applicable Governmental Entity.

Section 3.24 Agreements with Insurance Regulators. (a) Except as listed on Section 3.14(m) and Section 3.14(o) of the Disclosure Schedule, there is no Contract binding on any of the Companies or Subsidiaries, or Governmental Order by or from, any Insurance Regulator or other Governmental Entity issued to or binding on any of the Companies or Subsidiaries and (b) none of the Companies or Subsidiaries has adopted any board resolution at the request of any Insurance Regulator or other Governmental Entity, in the case of each of clauses (a) and (b), that (i) limits in any material respect the ability of any Company or Subsidiary to issue or enter into Insurance Contracts or Agency Contracts, (ii) requires the divestiture of any material investment of any Company or Subsidiary, (iii) limits in any material respect the ability of any Company or Subsidiary to pay dividends or distributions of any kind or character, (iv) requires any material investment of any Company or Subsidiary to be treated as a non-admitted asset (or the local equivalent) or (v) could reasonably be expected to have a Company Material Adverse Effect. To the Knowledge of Seller, no Insurance Regulator or other Governmental Entity has threatened in writing to take any undertakings related to any of the foregoing matters.

Section 3.25 Personal Property. Section 3.25 of the Disclosure Schedule identifies the personal property, whether tangible or intangible, owned or leased by or licensed to the Companies and the Subsidiaries (or that will be owned or leased by or licensed to the Companies and the Subsidiaries immediately following the consummation of the Business Re-Alignment Transactions and the Closing) (collectively, the "Personal Property"). The Companies and the Subsidiaries have, or will have immediately following the Closing, good and valid title to each item of Personal Property owned by any of them and a valid and enforceable right to use each item of Personal Property leased by or licensed to any of them, in each case, free and clear of all Liens, other than (i) Liens for Taxes and other governmental charges and assessments which are not yet due and payable or which are being contested in good faith by appropriate proceedings full and adequate reserves for which are reflected in the SAP Financial Statements, (ii) statutory Liens in favor of lessors arising in connection with any property leased to the Companies or the

Subsidiaries arising in the ordinary course of business for sums not yet due and payable, (iii) Liens reflected or reserved against in the SAP Financial Statements and (iv) any other Liens which do not materially and adversely interfere with the current use of properties affected thereby (collectively, "Permitted Liens").

Section 3.26 Investments. Seller has provided Buyer with a complete list of all bonds, stocks, mortgage loans and other investments that were carried on the books and records of the Companies and the Subsidiaries as of June 29, 2012 (such bonds, stocks, mortgage loans and other investments, together with all bonds, stocks, mortgage loans and other investments acquired by the Companies and the Subsidiaries between such date and the date of this Agreement, the "Investment Assets"). A copy of the policies of the Companies and the Subsidiaries with respect to the investment of the Investment Assets is set forth in Section 3.26 of the Disclosure Schedule (the "Investment Guidelines"), and the composition of the Investment Assets complies in all material respects with, and the Companies and the Subsidiaries have complied in all material respects with, the Investment Guidelines and Applicable Laws.

Section 3.27 Books and Records. The minute books and stock record books of the Companies and Subsidiaries, all of which have been made available to Buyer, are complete and correct in all material respects. At the Closing, all of those books and records will have been delivered to Buyer or be in the possession of the Companies or the Subsidiaries.

Section 3.28 UK Anti-Bribery. Each of Seller, the Companies and the Subsidiaries has not violated and will not violate, in connection with any matter pertaining directly or indirectly to this Agreement, including without limitation, the negotiation thereof, any relevant provision of the UK Bribery Act (2010), as it may from time to time be amended, or any successor act.

Section 3.29 No Other Representations and Warranties. Except for the representations and warranties contained in this ARTICLE III (including the related portions of the Disclosure Schedules), none of Seller or any other Person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of Seller, or any information regarding the Companies or the Subsidiaries furnished or made available to Buyer and its Representatives.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

Section 4.1 Organization, Standing and Corporate Power. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite corporate power and authority to own its assets and carry on its business as now being conducted. Buyer is duly qualified to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to be so qualified has not had and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of Buyer to consummate any of the transactions contemplated by this Agreement.

Section 4.2 Authority. Buyer has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement by Buyer and the consummation by Buyer of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of Buyer and no other corporate action or proceeding on the part of Buyer is necessary (including any shareholder vote). This Agreement has been duly executed and delivered by Buyer and, assuming due authorization, execution and delivery by Seller constitutes the valid, legal and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency or other similar laws, now or hereafter in effect, affecting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 4.3 Noncontravention; Consents. The execution and delivery by Buyer of this Agreement do not and, except as disclosed in Section 4.3 of the Disclosure Schedule, the performance by Buyer of this Agreement and the consummation by Buyer of the transactions contemplated by this Agreement will not (i) conflict with, be prohibited by, or require any approval that has not already been obtained under, any of the provisions of the certificate of incorporation or by-laws of Buyer, (ii) subject to the matters referred to in the next sentence, conflict with, result in a breach of or default (with or without notice or lapse of time, or both) under, be prohibited by, require any approval, consent or other action under, give rise to a right of termination, amendment, acceleration or cancellation under, or result in the creation of any Lien on any property or asset of Buyer under any Contract to which Buyer is a party or otherwise bound, or (iii) subject to the matters referred to in the next sentence, contravene, be prohibited by, or require approval or consent under, any Applicable Law or Governmental Order applicable to Buyer, which, in the case of clauses (ii) and (iii) above, would materially impair the ability of Buyer to consummate any of the transactions contemplated hereby. No consent, approval or authorization of, or declaration or filing with, or notice to, any Governmental Entity is required by or with respect to Buyer in connection with the execution, delivery and performance of this Agreement by Buyer or the consummation by Buyer of any of the transactions contemplated hereby, except for (i) the filing requirement(s) applicable to the transactions contemplated by this Agreement under competition, antitrust or similar Laws of Canada, (ii) the approvals, filings and notices required under the Insurance Laws of the jurisdictions set forth in Section 4.3 of the Disclosure Schedule, (iii) such other consents, approvals, authorizations, declarations, filings or notices as are set forth in Section 4.3 of the Disclosure Schedule and (iv) such other consents, approvals, authorizations, declarations, filings or notices the failure to obtain or make which, in the aggregate, would not materially impair the ability of Buyer to consummate any of the transactions contemplated hereby.

Section 4.4 Purchase Not for Distribution. The Shares to be acquired under the terms of this Agreement will be acquired by Buyer for its own account and not with a view to distribution. Buyer is an "accredited investor" as defined in Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"). Buyer acknowledges that it is informed as to the risks of the transactions contemplated hereby and of ownership of the Shares. Buyer acknowledges that the Shares have not been registered under the Securities Act or any state or foreign securities laws and that the Shares may not be sold, transferred, offered for sale, assigned, pledged, hypothecated or otherwise disposed of unless such transfer, sale, assignment, pledge, hypothecation or other disposition is pursuant to the terms of an effective registration statement under the Securities Act and the Shares are registered under any applicable state or foreign securities laws or sold pursuant to an exemption from registration under the Securities Act and any applicable state or foreign securities laws.

Section 4.5 Solvency. Assuming the conditions set forth in Section 7.1 and Section 7.2 have been satisfied or waived as of the Closing Date, and that each of the representations and warranties in this Section 4.5 would be true, correct and complete immediately before giving effect to the transactions contemplated by this Agreement, then immediately after giving effect to the transactions contemplated by this Agreement (including the payment of the Purchase Price), (i) none of the Companies or Subsidiaries will have incurred debts beyond its ability to pay such debts as they mature or become due, (ii) the assets of each of the Companies and Subsidiaries, in each case at a fair valuation, will exceed its respective debts (including the probable amount of all contingent liabilities) and (iii) none of the Companies or Subsidiaries will have unreasonably small capital to carry on its business as presently conducted or as proposed to be conducted. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement at the direction or otherwise on behalf of Buyer with the intent to hinder, delay or defraud any present or future creditors of the Companies or Subsidiaries.

Section 4.6 Litigation. There is no Action pending or, to the Knowledge of Buyer, threatened in writing against or affecting Buyer or any Affiliate of Buyer or any of their properties or assets that (i) seeks to restrain or enjoin the consummation of any of the transactions contemplated by this Agreement or (ii) would reasonably be expected to prevent or materially delay the ability of Buyer to consummate any of the transactions contemplated by this Agreement. Neither Buyer nor any of its Affiliates nor any officer, director or employee of Buyer or any of its Affiliates has been permanently or temporarily enjoined or barred by any Governmental Order from engaging in or continuing any conduct or practice in connection with the business conducted by the Companies or any Subsidiary that would reasonably be expected to effect the ability of Buyer to consummate any of the transactions contemplated by this Agreement.

Section 4.7 Approvals and Permits. Buyer has no reason to believe that it and its Affiliates will not be able to obtain as promptly as practicable all necessary approvals, authorizations and consents of Governmental Entities required to be obtained to consummate the transactions contemplated by this Agreement.

Section 4.8 Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer or any Affiliate.

Section 4.9 Financing. Buyer has, and on the Closing Date will have, sufficient cash funds (through existing credit arrangements or otherwise) available to purchase the Shares on the terms and conditions contemplated by this Agreement, to consummate the other transactions contemplated by this Agreement and to pay all associated costs and expenses required to be paid by Buyer in connection with the transactions contemplated by this Agreement.

Section 4.10 Independent Investigation. Buyer acknowledges that in making its decision to enter into this Agreement, it has relied solely upon independent investigations made by it or its Representatives and the express representations and warranties of Seller set forth in this Agreement (including the related portions of the Disclosure Schedule) and none of Seller, the Companies, the Subsidiaries or any other Person has made any representation or warranty as to Seller, the Companies, the Subsidiaries or this Agreement, except as expressly set forth in this Agreement (including the related portions of the Disclosure Schedule). Buyer has conducted its own due diligence on the Companies and the Subsidiaries and acknowledges that it has been provided adequate access to the management, employees and Representatives of Seller and the Companies and Subsidiaries and the documents, books and records pertaining to the Companies and the Subsidiaries for such purpose.

Section 4.11 Assessment of Reserves. Buyer acknowledges and agrees that:

(a) it has made its own assessment of the amount of liabilities respecting loss and claims reserves of the Companies and the Subsidiaries, respectively (the "Reserves");

(b) it has made its own assessment of the adequacy of the assets held by the Companies and the Subsidiaries in respect of the Reserves ("Reserve Assets");

(c) no representation or warranty, express or implied, has been or is made by Seller or any of its directors, shareholders, employees or advisers to Buyer as to the amount of the Reserves or the adequacy of the Reserve Assets, except as expressly set forth in Section 3.13; and

(d) Seller will have no liability to Buyer or Buyer Parent based solely on the amount of the Reserves or the adequacy of the Reserve Assets.

Section 4.12 UK Anti-Bribery. Buyer and Buyer Parent have not violated and will not violate, in connection with any matter pertaining directly or indirectly to this Agreement, including without limitation, the negotiation thereof, any relevant provision of the UK Bribery Act (2010), as it may from time to time be amended, or any successor act.

ARTICLE V

COVENANTS

Section 5.1 Conduct of Business of the Companies and the Subsidiaries. Except as expressly contemplated or permitted by this Agreement or as required by Applicable Law, from the date of this Agreement until the Closing, Seller shall cause the Companies and the Subsidiaries to: (i) carry on their respective businesses only in the ordinary course of business as

presently conducted (including, without limitation, the process of running off the existing business of the Companies and Subsidiaries) and, to the extent consistent therewith, to preserve and maintain the Permits and the Insurance Licenses and to use commercially reasonable efforts to maintain their rights, assets and franchises, to maintain and preserve their existing relationships with policyholders and reinsurers, and to preserve intact their current business organizations; and (ii) use their commercially reasonable efforts to maintain the financial-strength rating currently assigned to the Companies and the Subsidiaries by A.M. Best Company, Inc.; provided that in connection therewith Seller shall not be required to increase the paid-in-capital of the Companies or the Subsidiaries (unless the Purchase Price is increased by an amount equal to such paid-in-capital), enter into any guaranty, keep-well or other similar arrangement or incur any material expenditure or devote material time and resources. Notwithstanding the foregoing, if the Companies and the Subsidiaries receive a downgrade in the financial-strength rating currently assigned to the Companies and the Subsidiaries by A.M. Best Company, Inc. caused by or resulting from the negotiation, execution, delivery and performance of this Agreement, the consummation of the transactions contemplated by this Agreement (including any occurrence or condition arising out of the identity of or facts relating to Buyer) or the public announcement of this Agreement or the transactions contemplated by this Agreement, Seller shall not be obligated to restore the financial-strength rating assigned to the Companies and the Subsidiaries. Without limiting the generality of the foregoing, from the date of this Agreement until the Closing, except as expressly contemplated by this Agreement (including, but not limited to, those transactions required to carry out the dividends contemplated in Section 5.11 or to complete the Business Re-Alignment Transactions as contemplated in Section 5.15), required by Applicable Law or set forth on Section 5.1 of the Disclosure Schedule, Seller shall not permit the Companies or any Subsidiary to, without the prior consent of Buyer, which consent shall not be unreasonably withheld:

(a)(i) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of the Companies' or the Subsidiaries' outstanding capital stock (other than dividends payable solely to the Companies or a Subsidiary), (ii) adjust, recapitalize, split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its outstanding capital stock or (iii) purchase, redeem or otherwise acquire any shares of capital stock of the Companies or any Subsidiary or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares;

(b) authorize, issue, sell, dispose of, grant a Lien in, pledge or otherwise encumber any shares of its capital stock, any other voting securities or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares, voting securities or convertible or exchangeable securities or any stock based performance units;

(c) sell, lease, license or otherwise dispose of (including by way of reinsurance) any of its material assets (other than Investment Assets in the ordinary course of business consistent with the Investment Guidelines or in accordance with the Liquidation Plan set forth in Section 5.17 of this Agreement);

(d) amend its certificate of incorporation, by-laws or other comparable organizational documents;

(e) acquire, or agree to acquire, in a single transaction or a series of related transactions any interest in any corporation, partnership, joint venture, association or other business organization or division thereof (other than as part of the Investment Assets of the Companies or any Subsidiary in the ordinary course of business consistent with the Investment Guidelines), or a material amount of property or assets of any Person or enter into a plan of consolidation, merger, share exchange, reorganization or complete or partial liquidation;

(f)(i) incur, assume, repurchase or prepay any material indebtedness for borrowed money or guarantee or otherwise become responsible for any such indebtedness of another Person (other than pursuant to available lines of credit as in effect as of the date hereof), (ii) issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Companies or any Subsidiary, guarantee any debt securities of another Person, enter into any keep-well or other Contract to maintain the financial condition of any other Person or enter into any other arrangements having the economic effect of the foregoing, (iii) make any material loans, advances or capital contributions to, or investments in, any other Person, other than to the Companies or to any Subsidiary and loans and advances to Company Agents in the ordinary course of business and other than as to such matters related to the Investment Assets of the Companies or any Subsidiary in the ordinary course of business consistent with the Investment Guidelines or (iv) create or assume any other liability or obligation material to the Companies or any Subsidiary, or grant or create a Lien on, pledge or otherwise encumber any of its assets;

(g) change, revoke or make any written Tax election, file any material amended Tax Return or claim for refund, adopt or change any method of Tax accounting, enter into any closing agreement related to Taxes, settle or compromise any Tax liability or refund, consent to any material claim or assessment relating to Taxes, or consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business consistent with past practice), unless any such action is required by Applicable Law;

(h) make any material change in accounting methods, principles or practices used by the Companies or any Subsidiary (including reserve methods, practices or policies as in effect at December 31, 2011), except insofar as may be required by any Insurance Regulator or by a change in applicable SAP;

(i) make any material change in its underwriting, claims handling, loss control or actuarial methods, principles or practices or any material assumption underlying an actuarial practice or policy;

(j) enter into, amend, modify or terminate prior to the end of the term thereunder any Material Contract or Insurance Contract or modify, waive or consent to the termination of any material rights of any Company or any Subsidiary thereunder;

(k) make or dispose of any Investment Assets in any manner inconsistent with the Investment Guidelines or otherwise not in the ordinary course of business, or make any material change in the Investment Guidelines (other than in accordance with the Liquidation Plan set forth in Section 5.17 of this Agreement);

(l) make any capital expenditures except in the ordinary course of business;

(m)(i) pay or commit to pay any retention, transaction bonus, severance or termination pay except to the extent provided for under the terms of an existing Seller Benefit Plan and disclosed in Section 3.9 of the Disclosure Schedule, (ii) enter into any employment, deferred compensation, consulting, severance or similar agreement (or any amendment to any such existing agreement) with any current or former director, officer, employee or consultant of either Company or any Subsidiary or any Transferred Employee, (iii) increase or commit to increase any compensation or employee benefits payable to any current or former director, officer, employee or consultant of the Companies or any Subsidiary or any Transferred Employee, including wages, salaries, fees, compensation, pension, severance, termination pay, fringe benefits or other benefits or payments (except for increases in salary or wages in the ordinary course of business or as required by an existing Seller Benefit Plan as in effect on the date hereof or Applicable Law), (iv) adopt or make any commitment to adopt any additional employee benefit plan or other arrangement that would be a Seller Benefit Plan if it were in existence on the date of this Agreement or terminate or amend any existing Seller Benefit Plan, or (v) make any contribution to any Seller Benefit Plan, other than regularly scheduled contributions or contributions required by the terms of such Seller Benefit Plan or by Applicable Law;

(n) compromise, commute or buy back, or provide authority to any other Person to compromise, commute or buy back, any ceded or assumed Reinsurance Agreement or any claim under or with respect to any Reinsurance Agreement, in an amount in excess of $250,000; or

(o) enter into any legally binding Contract or otherwise offer or make a commitment to do any of the foregoing.

(p) Nothing contained in this Agreement shall give to Buyer, directly or indirectly, the right to control or direct the operation of the business of the Companies or the Subsidiaries prior to the Closing. Nothing contained in this Agreement shall limit the ability of Seller and its Affiliates, prior to the Closing, to exercise, consistent with the terms and conditions of this Agreement, complete control and supervision of the operations of the business of the Companies and the Subsidiaries.

Section 5.2 Access to Information; Confidentiality. Seller shall cause the Companies and the Subsidiaries to afford to Buyer and to the Representatives of Buyer reasonable access upon reasonable notice during normal business hours during the period prior to the Closing Date to all of their properties, books, Contracts, commitments and records and, during such period, Seller shall cause each of the Companies and the Subsidiaries to promptly furnish to Buyer such information concerning its business, properties, financial condition, operations and personnel as Buyer may from time to time reasonably request (subject to Applicable Law or any contractual limitations on Buyer or Seller), other than any such properties, books, contracts, commitments, records and information that (a) are subject to an attorney-client or other legal privilege which Seller's legal counsel advises would be impaired by such disclosure or (b) are subject to an obligation of confidentiality existing prior to the date of this Agreement or that is entered into after the date of this Agreement in the ordinary course of business, provided that Seller, the

Companies and the Subsidiaries shall have used commercially reasonable efforts to obtain the consent of the applicable third party to such inspection or disclosure; and provided further, that in the event any of Seller, the Companies or the Subsidiaries does not provide access in reliance on subclauses (a) and (b) of the prior sentence, it shall provide notice to Buyer that it is withholding such access or information and shall use commercially reasonable efforts to communicate, to the extent feasible, the applicable information in a way that would not violate the confidentiality obligation or risk waiver of such privilege. All requests for access or information pursuant to this Section 5.2 shall be directed to the Person or Persons identified in Section 5.2 of the Disclosure Schedule or such other Person or Persons as Seller shall designate after the date hereof in writing. Without limiting the terms thereof, the Confidentiality Agreement shall govern the obligations of Buyer and its Representatives (as defined in the Confidentiality Agreement) with respect to all information of any type furnished or made available to them pursuant to this Section 5.2.

Section 5.3 Commercially Reasonable Efforts. Upon the terms and subject to the conditions and other agreements set forth in this Agreement, each of the parties agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

Section 5.4 Consents, Approvals and Filings.

(a) Seller and Buyer shall each use commercially reasonable efforts, and shall cooperate fully with each other to obtain as promptly as practicable all necessary permits, orders or other consents, approvals or authorizations of Governmental Entities and consents or waivers of all third parties necessary in connection with the consummation of the transactions contemplated by this Agreement. In connection therewith, Seller and Buyer shall make and cause their respective Affiliates to make all legally required filings as promptly as practicable in order to facilitate prompt consummation of the transactions contemplated by this Agreement, and shall provide and shall cause their respective Affiliates to provide such information and communications to Governmental Entities as such Governmental Entities may reasonably require. The parties hereto shall not willfully take any action that will have the effect of delaying, impairing or impeding the receipt of all necessary permits, orders or other consents, approvals or authorizations of Governmental Entities and consents or waivers of all third parties necessary in connection with the consummation of the transactions contemplated by this Agreement.

(b) Without limiting the generality of subsection (a) of this Section 5.4, Seller and Buyer shall, as promptly as practicable, but in no event later than twenty (20) Business Days following the execution and delivery of this Agreement, file with the appropriate Canadian antitrust authorities the submission(s) required by any pre-acquisition filing requirement(s) applicable to the transactions contemplated by this Agreement under competition, antitrust or similar Laws of Canada. Seller and Buyer shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from any such antitrust authorities and shall comply promptly with any such reasonable inquiry or request. The parties hereto commit to instruct their respective counsel to cooperate with each other and

facilitate and expedite the identification and resolution of any such issues and, consequently, the expiration of the applicable pre-acquisition filing waiting period at the earliest practicable dates. Said cooperation includes, but is not limited to, counsel's undertaking (i) to keep each other appropriately informed of communications from and to personnel of the antitrust authorities, and (ii) to confer with each other regarding appropriate contacts with and response to personnel of said antitrust authority and the content of any such contacts or presentations. Neither Buyer nor Seller shall participate in any meeting or discussion with any antitrust authority with respect of any such filings, applications, investigation, or other inquiry without giving the other party prior notice of the meeting or discussion and, to the extent permitted by the relevant antitrust authority, the opportunity to attend and participate (which, at the request of either Buyer or Seller, shall be limited to outside antitrust counsel only). Buyer and Seller shall each approve the content of any filings, applications, presentations, white papers or other written materials to be submitted to any antitrust authority in advance of any such submission.

(c) Without limiting the generality of subsection (a) of this Section 5.4, (i) Buyer shall, as promptly as practicable, but in no event later than twenty (20) Business Days following the execution and delivery of this Agreement, file with all applicable Insurance Regulators requests for approval of the transactions contemplated by this Agreement when such approvals are required to be obtained by Buyer, which requests shall include all required exhibits, and (ii) Seller shall, as promptly as practicable, but in no event later than twenty (20) Business Days following the execution and delivery of this Agreement, file with all applicable Insurance Regulators requests for all regulatory approvals contemplated by this Agreement when such approvals are required to be obtained by Seller ((i) and (ii), together, the "Insurance Approval Filings"). Each filing party agrees to provide a draft of all Insurance Approval Filings (and each amendment or supplement thereto) prepared by it (in this subsection, the "filing party") to the other party (in this subsection, the "non-filing party") and to allow the non-filing party five (5) Business Days to review such filings and to consult with the filing party relating to any issues arising as a result of the non-filing party's review, prior to the submission by the filing party of the Insurance Approval Filings to the Insurance Regulator. Each filing party agrees to provide the non-filing party with copies of the Insurance Approval Filings and each amendment or supplement thereto in final form upon the submission thereof to the Insurance Regulator. Notwithstanding the foregoing, the parties agree that no filing party will be required to provide to the non-filing party those portions of the Insurance Approval Filings that contain any confidential or personal information. Each party shall give the non-filing party prompt written notice if it receives any notice or other communication from any Insurance Regulator in connection with the transactions contemplated by this Agreement, and, in the case of any such notice or communication which is in writing, shall promptly furnish the other party a copy thereof. Each filing party agrees to respond promptly to any request by the Insurance Regulator for any additional information and documentary material in connection therewith. If any Insurance Regulator requires that a hearing be held in connection with any such filing or approval, the filing party shall use commercially reasonable efforts to arrange for such hearing to be held promptly after it receives notice that such hearing is required. The filing party shall give the non-filing party prior written notice of the time and place when any meetings or other conferences may be held by it with any Insurance Regulator in connection with the transactions contemplated by this Agreement, and shall permit the non-filing party to have a representative or representatives attend or otherwise participate in any such meeting or conference. Seller and Buyer each agree to timely make all appropriate filings with the Insurance Regulators and such other filings as may be required under the Insurance Laws of any other state or jurisdiction in which the Companies or the Subsidiaries do business.

(d) Buyer and Seller shall be equally responsible for the cost of all filing fees associated with all filings with applicable Governmental Entities and Insurance Regulators, and Buyer and Seller shall have responsibility for their other respective filing fees associated with any other required filings.

(e) Notwithstanding any other provision of this Agreement to the contrary (including Section 5.3 and this Section 5.4), neither Buyer nor any of its Affiliates shall be required to, and none of the Companies or Subsidiaries may, without the prior written consent of Buyer, agree or commit to take or refrain from taking any action or agree or commit to any condition, limitation, restriction or requirement that would constitute or result in a Burdensome Condition to secure the approval of any Insurance Regulator or any Governmental Entity required to consummate the transactions contemplated by this Agreement.

(f) Subject to the parties' obligations under Section 5.4(a) hereof:

(i) To the extent that the rights of either of the Companies or any Subsidiary under any Contract, including the rights of the Companies, any Subsidiary or any of their Affiliates under the Re-Alignment Contracts, may not be transferred or made available to Buyer without obtaining the consent or approval of a third party and Seller has disclosed to Buyer the need for such consent or approval in Section 5.4(f) of the Disclosure Schedule on the date hereof, Buyer shall be responsible for the costs (including any license or other fees and expenses) associated with obtaining the consent or approval from such third party to obtain such rights or the replacement of such rights. For the avoidance of doubt, costs allocated to Seller or Buyer pursuant to Section 4.2 of the Memorandum of Understanding Regarding Transition Services Terms and Conditions are unaffected by this Section 5.4(f)(i).

(ii) If Seller has not disclosed to Buyer the need for any such consent or approval in Section 5.4(f) of the Disclosure Schedule on the date hereof, then Seller shall be responsible for the costs (including any license or other fees and expenses) associated with obtaining the consent or approval from such third party to obtain such rights or the replacement of such rights.

(iii) If any such consent or approval is not obtained, Seller will use commercially reasonable efforts to secure an arrangement reasonably satisfactory to Buyer ensuring that Buyer will receive the benefits under the Contract for which such consent is being sought following the Closing. Notwithstanding the foregoing, Buyer shall remain obligated to close the transactions contemplated herein, subject to the other provisions hereof, and shall have no remedy for the failure of Seller to obtain any such consent or approval or to provide any such alternative arrangement, except for payment of costs in accordance with this Section 5.4(f).

Section 5.5 Access to Books and Records.

(a) In order to facilitate the resolution of any claims made against or incurred by Seller prior to the Closing or for any other reasonable purposes, for a period of ten (10) years after the Closing, Buyer shall (i) retain the books, records and other data related to the business of the Companies and the Subsidiaries relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of the Companies and the Subsidiaries, and (ii) upon reasonable notice, afford Seller and any Affiliates of Seller, and their respective Representatives, during normal business hours, reasonable access (subject to Applicable Law, any applicable legal privilege and any contractual limitations on Buyer) to such books, records and other data and the Transferred Employees (including making such persons reasonably available to Seller, at Seller's sole cost and expense, for depositions, preparation for such depositions, trial preparation, trial and related fact-gathering, but excluding any proceedings, or threatened proceedings, between Buyer or an Affiliate, on one hand, and Seller or an Affiliate, on the other hand).

(b) In order to facilitate the resolution of any claims made against or incurred by Buyer or the Company after the Closing or for any other reasonable purposes, for a period of ten (10) years after the Closing, Seller shall (i) retain the books, records and other data of Seller that relate to the Companies and the Subsidiaries and their operations for periods prior to the Closing in a manner reasonably consistent with the prior practices of Seller, and (ii) upon reasonable notice, afford Buyer and the Companies and any of their respective Affiliates, and their respective Representatives, during normal business hours, reasonable access (subject to Applicable Law, any applicable legal privilege and any contractual limitations on Seller) to such books, records and other data and employees of Seller with applicable knowledge of the business of the Companies and the Subsidiaries and its operations for periods prior to the Closing (including making such persons reasonably available to Buyer, at Buyer's sole cost and expense, for depositions, preparation for such depositions, trial preparation, trial and related fact-gathering, but excluding any proceedings, or threatened proceedings, between Buyer or an Affiliate, on one hand, and Seller or an Affiliate, on the other hand).

(c) Notwithstanding the foregoing, this Section 5.5 shall not apply to the Tax Returns and other materials covered by Section 10.6.

Section 5.6 Publicity; Notices. Until the Closing Date, the parties hereto shall coordinate with each other as soon as practicable in advance (but no less than three (3) days in advance of the anticipated dissemination date) as to (i) the form and content of any external communication, including any communication intended for dissemination or to reach, or reasonably expected to be disseminated or to reach, members of the public or customers of Seller or its Affiliates regarding the transactions contemplated by this Agreement and (ii) the form and content of any communication from Buyer to Employees; provided, however, that Buyer shall not communicate with Employees or customers of Seller or its Affiliates with respect to the transactions contemplated by this Agreement without the prior written consent of Seller. Neither party shall disseminate any such communication without adequate advance notice and the prior review of the other, which review shall not be unreasonably delayed, except that nothing contained in this Agreement shall prevent the parties hereto from making any and all public disclosures legally required to comply with any applicable securities laws or the applicable rules

of any stock exchange or regulations or requests of Governmental Entities; provided that, to the extent possible under the circumstances, the party making such disclosure consults with the other party, and considers in good faith the views of the other party, before doing so.

Section 5.7 Affiliate Contracts and Intercompany Accounts. Prior to or at the Closing, Seller shall, and shall cause the Companies and Subsidiaries to, (i) obtain all required regulatory approvals to terminate all Affiliate Contracts and settle all Intercompany Accounts, (ii) terminate all Affiliate Contracts without any obligation of or liability to any of the Companies or Subsidiaries, on terms reasonably satisfactory to Buyer, and (iii) settle in full (without any premium or penalty) all Intercompany Accounts; provided that no Company or Subsidiary shall be required to pay amounts in excess of the amounts reserved on such Company's or Subsidiary's most recent SAP Financial Statements.

Section 5.8 Use of Names.

(a) Prior to or at the Closing, the Companies and the Subsidiaries shall transfer any and all right, title or interest, including all associated goodwill, which any of them may have in or to the names, trademarks and service marks set forth on Section 5.8(a) of the Disclosure Schedule or any name, trademark, service mark, acronym or logo based on or incorporating any of such names, trademarks or service marks or any Internet domain name containing all or a portion of a Seller Trademark to Seller or to such Person as Seller may direct. Buyer acknowledges that no right, title or interest in the name HSBC or Household, the HSBC or Household logos, brands or trademarks, the name Household Life Insurance Company of Delaware and HSBC Insurance Company of Delaware, the name or any reference to HSBC or Household, or any similar name or reference or any application or registration in respect thereof (collectively, the "Seller Trademarks") and no such name, logo, brand or trademark is or should be deemed transferred to Buyer under or by this Agreement. Prior to or at the Closing, Seller or an Affiliate of Seller shall enter into a license (the "Trademark License") with Buyer substantially in the form attached hereto as Exhibit E, which will permit the use of certain Seller Trademarks as provided therein.

(b) Promptly following the Closing, Buyer shall select a new name for each Company and each Subsidiary that does not include a Seller Trademark or any confusingly similar name. As soon as reasonably practicable following the Closing, Buyer shall cause each Company and each Subsidiary to take all such actions (including making filings, obtaining approvals and amending their respective certificates of incorporation) as shall be necessary (i) to change its name to such new name and (ii) except as otherwise provided by the Trademark License, to cease all use of Seller Trademarks, including changing all trademark or service mark use of Seller Trademarks to marks that do not include any Seller Trademark or any confusingly similar mark.

(c) Except as provided in Section 5.8(a), Section 5.8(b) or the Trademark License, Buyer shall use commercially reasonable efforts to cause the Companies and the Subsidiaries to cease using any Seller Trademark as soon as practicable following the Closing.

Section 5.9 Further Assurances. Seller and Buyer agree, and Seller, prior to the Closing, and Buyer, after the Closing, agree to cause the Companies and each Subsidiary, to execute and deliver such other documents, certificates, agreements and other writings as may be reasonably necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement.

Section 5.10 Officers and Directors.

(a) Seller shall deliver to Buyer the resignations of all officers and members of the board of directors of the Companies and the Subsidiaries from their positions as officers and directors of the Companies and the Subsidiaries immediately prior to the Closing, such resignations to become effective upon the Closing.

(b) For a period of six (6) years after the Closing Date, the Companies and Subsidiaries shall not, and Buyer shall cause the Companies and Subsidiaries not to, amend, repeal or modify any provision in their respective certificates of incorporation or by-laws relating to the exculpation or indemnification for any officers and directors (unless required by Applicable Law), it being the intent of the parties hereto that the officers and directors of the Companies and Subsidiaries shall continue to be entitled to such exculpation and indemnification to the full extent of the law. Such officers and directors are intended third party beneficiaries of this Section 5.10 and may specifically enforce its terms.

Section 5.11 Reduction in Surplus. Prior to Closing, and subject to receipt of all applicable Seller and regulatory approvals in form and substance reasonably acceptable to Seller and Buyer, Seller shall use commercially reasonable efforts to cause the Companies and the Subsidiaries to transfer assets by one or more distributions or redemptions of stock to Seller (the "Dividends") in amounts required to reduce the Aggregate Closing Capital and Surplus of the Companies and the Subsidiaries as of the Closing Date to an amount no greater than the Aggregate Target Closing Capital and Surplus.

Section 5.12 Notice of Events.

(a) Buyer shall promptly notify Seller, and Seller shall promptly notify Buyer, in writing, upon (i) becoming aware of any Governmental Order or any complaint praying for an order or decree restraining or enjoining the execution of this Agreement or the consummation of the transactions contemplated by this Agreement, or (ii) receiving any notice from any Governmental Entity of its intention to (x) institute a suit or proceeding to restrain or enjoin the execution of this Agreement or the consummation of the transactions contemplated by this Agreement or (y) nullify or render ineffective this Agreement or such transactions if consummated.

(b) During the period from the date hereof to the Closing Date or the earlier termination of this Agreement, Buyer shall promptly notify Seller in writing if Buyer becomes aware of: (i) the occurrence or non-occurrence of any event or the existence of any fact or condition that would cause or constitute a breach of any of its representations or warranties had any such representation or warranty been made as of the time of Buyer's discovery of such event, fact or condition; or (ii) any event, fact or condition that has resulted in, or could reasonably be expected to result in, the failure of any of the conditions set forth in Section 7.3; provided that any such notification shall not cure any inaccuracy in or breach of Buyer's representations and warranties contained in this Agreement for any purpose, including the indemnification and termination rights contained in this Agreement or for determining whether or not the conditions set forth in Section 7.3(a) have been satisfied.

(c) During the period from the date hereof to the Closing Date or the earlier termination of this Agreement, Seller shall promptly notify Buyer in writing if Seller becomes aware of: (i) the occurrence or non-occurrence of any event or the existence of any fact or condition that would cause or constitute a breach of any of its representations or warranties had any such representation or warranty been made as of the time of Seller's discovery of such event, fact or condition; or (ii) any event, fact or condition that has resulted in, or could reasonably be expected to result in, the failure of any of the conditions set forth in Section 7.2; provided that any such notification shall not cure any inaccuracy in or breach of Seller's representations and warranties contained in this Agreement for any purpose, including the indemnification and termination rights contained in this Agreement or for determining whether or not the conditions set forth in Section 7.2(a) have been satisfied.

Section 5.13 Non-Solicit.

(a) During the 24 month period following the Closing Date, Seller shall not, and shall cause its subsidiaries not to, directly or indirectly, hire or solicit the services (as employee, consultant or otherwise) of any Transferred Employee without the prior written consent of Buyer; provided, however, that nothing in this Agreement shall prohibit Seller or any of its subsidiaries from offering employment to or employing persons (i) who respond to a general solicitation or advertisement that is not specifically directed to Transferred Employees (and nothing shall prohibit the making of such general solicitation or advertisement), (ii) who have not been employed by Buyer or any of its subsidiaries for a period of six (6) consecutive months (including for this purpose, time worked for Seller or any of its Affiliates immediately prior to the Closing), or (iii) who have been involuntarily terminated by Buyer or any of its subsidiaries solely due to restructuring, site closings, or displacement, lack of or rearrangement of work.

(b) During the 24 month period following the Closing Date, Buyer shall not, and shall cause its subsidiaries not to, directly or indirectly, hire or solicit the services (as employee, consultant or otherwise) of any employee of Seller or its Affiliates without the prior written consent of Seller; provided, however, that nothing in this Agreement shall prohibit Buyer or any of its subsidiaries from offering employment to or employing persons (i) who respond to a general solicitation or advertisement that is not specifically directed to employees of Seller or its subsidiaries (and nothing shall prohibit the making of such general solicitation or advertisement), (ii) who have not been employed by Seller of any of its subsidiaries for a period of six (6) consecutive months, (iii) who have been involuntarily terminated by Seller or any of its subsidiaries solely due to restructuring, site closings, or displacement, lack of or rearrangement of work or (iv) as contemplated in Section 6.1.

Section 5.14 Parent Guarantee.

(a) Buyer Parent hereby absolutely, unconditionally and irrevocably guarantees (the "Guarantee"), as principal and not as a surety, to Seller (i) the prompt and complete payment in full as and when due and payable by Buyer (and its successors and permitted assigns) of any and all amounts payable by Buyer pursuant to the terms of this Agreement (such payment obligations, the "Guaranteed Payments"), and (ii) the prompt and complete performance in full by Buyer (and its successors and assigns) of its other obligations under the terms of this Agreement (the "Guaranteed Obligations"). The Guaranteed Payments and Guaranteed Obligations are sometimes referred to herein collectively as the "Obligations." If for any reason Buyer shall fail or be unable promptly and fully to pay any Guaranteed Payment as and when the same shall be due and payable hereunder or to perform any Guaranteed Obligation, Buyer Parent shall forthwith pay or cause to be paid such Guaranteed Payment to Seller or shall forthwith perform or cause to be performed such Guaranteed Obligation, as the case may be, and Seller shall not be obligated to pursue remedies against Buyer as a condition to enforcement of the Guarantee. Buyer Parent represents and warrants to Seller that it has the full corporate power and authority to provide the Guarantee, to perform its obligations with respect thereto and to execute this Agreement for the purposes thereof. The provision of the Guarantee, the performance of Buyer Parent's obligations with respect thereto and the execution and delivery of this Agreement for purposes of this Section 5.14 have been duly and validly authorized and approved by all requisite corporate action of Buyer Parent and no other acts or proceedings on its part are necessary with respect thereto.

(b) The obligations of Buyer Parent under the Guarantee constitute a present and continuing guarantee of payment and performance, and not of collectability. Subject to Section 5.14(f), the liability of Buyer Parent under this Section 5.14 shall be absolute, unconditional, present, continuing and irrevocable until all of the Obligations have been indefeasibly paid in full or performed, as applicable, irrespective of:

(i) any permitted assignment or other transfer of this Agreement or any of the rights hereunder of Buyer hereunder;

(ii) any amendment, waiver, renewal or extension of, or release or consent under, this Agreement, in each case other than in respect of this Section 5.14;

(iii) any acceptance by Seller of partial payment or performance from Buyer;

(iv) any bankruptcy, insolvency, reorganization, arrangement, composition, adjustment, dissolution, liquidation or other like proceeding relating to Buyer, or any action taken with respect to this Agreement by any trustee or receiver, or by any court, in any such proceedings; or

(v) any absence of any notice to, or knowledge of, Buyer Parent of the existence or occurrence of any of the matters set forth in the foregoing subsections (i) through (iv).

Subject to Section 5.14(f), the Obligations of Buyer Parent hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claims of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise, provided that nothing contained in this Section 5.14 shall limit the ability of Buyer or Buyer Parent to bring any action or claim under this Agreement.

(c) The Guarantee is a continuing Guarantee and shall (i) remain in full force and effect until the complete performance of all of the Obligations and the indefeasible payment in full of all of the Guaranteed Payments, (ii) be binding upon Buyer Parent, its successors and permitted assigns and (iii) inure to the benefit of and be enforceable by Seller and its successors, transferees and permitted assigns; provided, however, that the obligations of Buyer Parent in this Section 5.14 may not be assigned, transferred or delegated without the prior written consent of Seller. Any attempted assignment or transfer in violation of this Section 5.14(c) shall be void.

(d) Buyer Parent hereby waives promptness, diligence, all setoffs, presentments, protests and notice of acceptance and any other notice relating to any of the Obligations or this Section 5.14.

(e) The obligations of Buyer Parent under this Section 5.14 shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Payments is rescinded or must otherwise be returned to Buyer or any other entity, or any of the Guaranteed Obligations is rescinded or annulled, upon the insolvency, bankruptcy, arrangement, adjustment, composition, liquidation or reorganization of Buyer, as though such payment had not been made or performance had not occurred, as applicable.

(f) Seller agrees that notwithstanding anything contained herein to the contrary, except as provided in the last sentence of this Section 5.14(f), Buyer Parent shall not be obligated to pay or perform any Obligation hereunder to the extent that Buyer is not required to pay or perform such Obligation as a result of any right or offset, counterclaim or other defense available to Buyer with respect to such Obligation in accordance with the provisions of this Agreement (collectively, a "Purchaser Defense"). In furtherance thereof, Buyer Parent shall be entitled to assert any Purchaser Defense to the same extent that any such Purchaser Defense could be asserted by Buyer in any action brought by Seller to enforce the Obligations against Buyer. Notwithstanding the foregoing provisions of this Section 5.14(f), in no event shall any stay or discharge or other impairment of or limitation on the Obligations as the result of any bankruptcy, insolvency, reorganization, arrangement, composition, adjustment, dissolution, liquidation or other like proceeding relating to Buyer or any action taken with respect to this Agreement by any trustee or receiver, or by any court, in any such proceeding, give rise to any defense to payment or performance by Buyer Parent hereunder.

Section 5.15 Business Re-Alignment Transactions; Re-Alignment Contracts.

(a) Prior to Closing, the Companies shall have consummated, and shall have caused the Subsidiaries to have consummated, the authorized pre-closing transactions described on Section 5.15(a) of the Disclosure Schedule (the "Business Re-Alignment Transactions").

(b) Section 5.15(b) of the Disclosure Schedule contains a list of all Contracts that provide goods and services solely to a Company or a Subsidiary in the operation of its business, but which are currently in the name of Seller or an Affiliate of Seller (other than the Companies and the Subsidiaries) (the "Re-Alignment Contracts"). Except as otherwise related to services provided under the Transition Services Agreement, prior to the Closing Date, Seller will use commercially reasonable efforts to have all Re-Alignment Contracts assigned to a Company or a Subsidiary or re-executed to have a Company or a Subsidiary become a party thereto and any costs (including any license, other fees and expenses or any third party payments) associated with obtaining the assignment or re-execution of such contracts shall be borne by the parties in accordance with Section 5.4(f).

Section 5.16 Transition Services. Seller shall, or shall cause one of its Affiliates to, provide transition services to the Companies and the Subsidiaries following the Closing in accordance with the terms and conditions of a transition services agreement ("Transition Services Agreement"). Seller and Buyer shall use their respective commercially reasonable efforts to promptly, but in no event later than ninety (90) days following the date of this Agreement (unless extended by mutual consent of the parties), negotiate in good faith and finalize the terms and conditions of the Transition Services Agreement in accordance with the general terms and conditions set forth in the Memorandum of Understanding Regarding Transition Services Terms and Conditions attached hereto as Exhibit F.

Section 5.17 Sale of Investments. To facilitate the reduction in Aggregate Closing Capital and Surplus as contemplated in Section 5.11 of this Agreement, Seller shall, or shall cause the Companies and each Subsidiary to, liquidate Investment Assets as necessary in accordance with the plan set forth on Section 5.17 of the Disclosure Schedule (the "Liquidation Plan") prior to the Closing. Seller shall use commercially reasonable efforts to ensure that the Reserve Assets on the Closing Date are reasonably matched (from an asset yield and duration perspective) to the Reserve Assets as of September 30, 2011 (the "Closing Balance Sheet Objectives"). Seller shall keep Buyer reasonably informed regarding the Liquidation Plan and shall provide Buyer with a complete list of all investment assets owned by the Companies and the Subsidiaries at the end of each calendar month. Seller and its Affiliates shall have sole discretion over management of the Liquidation Plan; provided, however, the composition of the investment assets at Closing shall comply in all material respects with Applicable Laws and the Closing Balance Sheet Objectives.

Section 5.18 DFS Subpoena. To facilitate the resolution of the DFS Subpoena and any related investigation or regulatory action by DFS, and in addition to providing Seller with access pursuant to Section 5.2 hereof, following Closing, Buyer shall: (i) permit Seller to retain a copy of all books, records and other data (including emails) related to HSBC DE's LPI Business for periods prior to the Closing; and (ii) cause HSBC DE to execute and deliver any letter or other form of authorization requested by DFS to provide Seller and its legal representative with authority to act on behalf of HSBC DE in (A) responding to the DFS Subpoena and any related investigation or regulatory action by DFS, including providing any additional information and documentary material retained by Seller pursuant to clause (i) above in connection therewith, (B) attending meetings with DFS representatives to discuss the DFS Subpoena and any related investigation or regulatory action by DFS, (C) receiving and responding to all communications to, from and between DFS and HSBC DE related to the DFS Subpoena, and (D) taking any action necessary or appropriate to resolve any Action by DFS related to the LPI Business. Seller agrees to provide Buyer with notice regarding any developments regarding the DFS Subpoena.

Notwithstanding the foregoing, the parties agree that all matters related to the DFS Subpoena and any related investigation or regulatory action by DFS shall be deemed for purposes of this Agreement to be Third Party Claims for which Seller, as Indemnifying Party, has elected to assume the defense, and Buyer shall retain all rights with respect thereto as the Indemnified Party, in each case as set forth in Section 9.2(b) hereof. Seller agrees to provide Buyer with notice regarding any developments regarding the DFS Subpoena. Buyer shall use commercially reasonable efforts to make, directly or through its Affiliates, Transferred Employees who remain employed by Buyer or its Affiliates at such time available on a basis mutually convenient to both parties to provide explanations of any documents or information potentially responsive to the DFS Subpoena, including making such Transferred Employees reasonably available for depositions, preparation for such depositions, trial preparation, trial and related fact-gathering. In accordance with the obligations of this Section 5.18, Seller shall retain a copy of all books, records and other data (including emails) related to HSBC DE's LPI Business for periods prior to the Closing. Following the Closing, Seller shall (i) be solely responsible for the payment of all reasonable out-of-pocket fees and expenses incurred by Buyer, its Affiliates or any such Transferred Employees arising out of this Section 5.18 and (ii) as set forth in Section 9.1, indemnify, defend and hold harmless Buyer and its Affiliates and their respective Representatives from and against any and all Losses to the extent arising from or related to compliance with this Section 5.18, the DFS Subpoena and the underlying matters related thereto. Seller shall also promptly pay to Buyer, upon Buyer's request, an amount equal to the sum of all reasonable compensation paid by Buyer to any Transferred Employees attributable to such Transferred Employee's time spent working on any matters set forth in this Section 5.18, which shall be reasonably documented by Buyer.

Section 5.19 Affiliate Payments. If and to the extent Seller so requests in writing, Buyer shall cause HLIC DE or one of its Subsidiaries (as so requested), or any successor thereto, to make a payment (an "Affiliate Payment") to one or more current or former Affiliates of Seller in respect of certain intercompany transactions that occurred between such payor and such Affiliate, or any of their respective predecessors, prior to the Closing, but with respect to which payment has not previously been made. Buyer's obligation to cause HLIC DE or one of its Subsidiaries to make any Affiliate Payment is subject to Seller first paying to Buyer the full amount of such payment in accordance with the indemnification provisions in Article IX.

Section 5.20 Post-Closing Assurant Adjustment. In the event that any Assurant Contract is terminated within sixty (60) days of the Closing Date for any reason other than cause, or if the Companies and/or the Subsidiaries receive a notice of termination or non-renewal of any such contract for any reason other than cause within sixty (60) days of the Closing Date, then Seller shall promptly pay to Buyer an amount equal to the component of the Purchase Price Buyer paid at Closing (as part of the total Purchase Price) for the future value that would otherwise have been derived from the terminated contract had it not terminated, as adjusted to reflect the value actually derived by Buyer from such contract after the Closing. Buyer and Seller shall negotiate and calculate any amount required to be paid under this Section 5.20 in good faith. For the avoidance of doubt, if any Assurant Contract is amended prior to the Closing Date and such amendment results in an Assurant Adjustment with respect to such contract at the Closing, and then such contract is terminated within sixty (60) days of the Closing Date, any payment made pursuant to this Section 5.20 shall be reduced by the amount of the Assurant Adjustment made prior to the Closing with respect to such Assurant Contract.

ARTICLE VI

EMPLOYEE MATTERS

Section 6.1 Transferred Employees; Severance Benefits.

(a) Section 6.1(a) of the Disclosure Schedule contains a true and correct list, as of August 30, 2012, of all Employees who are employed principally in connection with the business of the Companies and the Subsidiaries, other than Employees who are not intended by Seller to become Transferred Employees, as well as the position, corporate and functional title, status as exempt or non-exempt, identification number, hire date, status as full- or part-time, status as active or on leave, if on leave, the date leave commenced, geographic location and remuneration (including base salary, base wage, commission schedule, prior year's incentive award and current year's annual incentive opportunity, in each case, as applicable) of each such Employee. Within fifteen (15) Business Days prior to the Closing Date, Seller shall update Section 6.1(a) of the Disclosure Schedule to reflect any Employees whose employment has terminated and any other change in the information on Section 6.1(a) of the Disclosure Schedule; provided, however, that Seller shall not add any Employees to the list set forth in Section 6.1(a) of the Disclosure Schedule without Buyer's prior written consent, which shall not be unreasonably withheld or delayed.

(b) At least twenty-five (25) days prior to the Closing Date and effective as of the Closing Date, Buyer shall make offers of post-Closing employment by the Companies and the Subsidiaries to such Employees selected by Buyer in its sole discretion. Each Employee shall have ten (10) days to accept or reject the offer of employment. The Employees who accept Buyer's offer of employment are referred to herein as "Transferred Employees." The employment of the Transferred Employees with the Companies and the Subsidiaries shall be deemed to commence at the later of 12:00:00 a.m. Eastern Time on the Closing Date or the date an Employee becomes a Transferred Employee (the "Transfer Date"), without regard to whether the Transferred Employee is actively at work on the Closing Date in the case of an Employee who on the Closing Date is absent from work due to a vacation, jury duty, funeral leave or personal day. Notwithstanding the foregoing: (i) to the extent that an Employee who has accepted Buyer's offer is not available to perform services on the Closing Date because on the Closing Date such Employee is on sick leave, short-term disability, workers compensation leave, military leave, leave of absence under the Family Medical Leave Act or other leave of absence approved by Seller or one of its Affiliates (other than a vacation, jury duty, funeral leave or personal day) (a "Leave Recipient"), he or she shall remain an employee of Seller or one of its Affiliates; provided that the Companies and the Subsidiaries shall hire such Leave Recipient pursuant to the terms of the accepted offer of employment if such Leave Recipient returns to work no later than six (6) months following the Closing Date; and (ii) each Employee who has accepted Buyer's offer but is needed by Seller to perform services for Seller or one of its Affiliates under the Transition Services Agreement (the "Delayed Employees") shall remain an employee of Seller or one of its Affiliates until such time as Seller no longer requires the services of such Delayed Employee but not later than the expiration of the Transition Services

Agreement. Buyer and Seller shall cooperate in good faith to develop a mutually acceptable list of Delayed Employees no later than three (3) days following the date the Transition Services Agreement is substantially finalized in accordance with Section 5.16 hereof, and shall mutually agree upon an updated list of Delayed Employees no later than five (5) days prior to the Closing Date. Seller shall provide at least ten (10) days' notice to Buyer that it will no longer require the services of such Delayed Employee at which time Buyer's offer of employment shall become effective. For purposes of this Agreement, such Leave Recipient and Delayed Employee shall become a Transferred Employee as of the date active employment with the Companies and the Subsidiaries commences but for a Leave Recipient no later than five (5) Business Days from their return to work (the "Delayed Transfer Date") and, to the extent applicable to such Leave Recipient or Delayed Employee, references in this ARTICLE VI to the "Closing Date" shall relate to the Delayed Transfer Date. As of the Transfer Date or Delayed Transfer Date, as applicable, Seller and its Affiliates intend to treat each Transferred Employee as having a "separation from service" from Seller and its Affiliates as that term is defined by Section 409A of the Code and the regulations promulgated thereunder. Prior to the Closing Date, Seller or one of its Affiliates shall request "good leaver" status from the Remuneration Committee of HSBC Holdings plc with respect to any outstanding awards under the HSBC Holdings plc Share Plan. Those Employees who receive but do not accept an offer of employment from Buyer that is consistent with the Comparable Job Offer (whether by rejection or by failure to respond) shall not be considered Transferred Employees for any purpose of this Agreement and shall instead be considered "Excluded Employees." Seller acknowledges that the benefits and incentive compensation opportunities to be provided to the Transferred Employees and described in Section 6.1(b) of the Disclosure Schedule are sufficient to satisfy (i) such elements of a Comparable Job Offer and (ii) such elements of the requirements of Section 6.2(a). Nothing in this Section shall require or be construed or interpreted as requiring the Companies or the Subsidiaries to continue the employment of any of the Transferred Employees following the Closing Date.

Section 6.2 Benefits Following the Closing Date.

(a) Effective as of the Closing Date, Buyer shall provide, or cause to be provided, the Transferred Employees with broad-based Employee Benefit Plans and programs that are no less favorable, in the aggregate, than those Employee Benefit Plans and programs provided by Seller to the Transferred Employees immediately prior to the Closing Date (collectively, the "Buyer Employee Benefit Plans"). For purposes of vesting and eligibility to participate in any applicable Buyer Employee Benefit Plan in which a Transferred Employee will be entitled to participate on and after the Closing Date (but not for the purposes of benefit accrual under applicable pension or retirement benefit plans) and for benefit accrual purposes only for vacation paid-time off and severance benefits under any applicable Buyer Employee Benefit Plan, each Transferred Employee shall be credited with the years of service he or she has been credited with under the comparable Employee Benefit Plans of Seller or its Affiliates to the extent confirmed by Buyer (through payroll or plan records); provided that such service shall not be recognized to the extent such recognition would result in a duplication of benefits for the same period of service. Buyer shall use commercially reasonable efforts to permit Buyer's tax-qualified employee defined contribution plan(s) maintained in the United States to accept rollover contributions of "eligible rollover distributions" (within the meaning of Section

402(c)(4) of the Code). In addition, Buyer shall (i) waive, or cause to be waived, any preexisting condition exclusions and waiting periods under any Buyer Employee Benefit Plan which is an "employee welfare benefit plan" (within the meaning of Section 3(1) of ERISA) that provides health care benefits in which the Transferred Employees are eligible to participate to the same extent that such condition exclusions and waiting periods were waived under the comparable Employee Benefit Plan of Seller or its Affiliates, and (ii) subject to Sellers providing Buyer with the applicable information with respect to each Transferred Employee in a form that Buyer determines is administratively feasible to take into account under its plans, cause such plans to honor any expenses incurred by such Transferred Employees and their eligible dependents under Employee Benefit Plans of Seller or its Affiliates that are health care benefit plans during the portion of the calendar year in which they become Transferred Employees for purposes of satisfying applicable deductible, co-insurance, maximum out-of-pocket, and similar expenses, to the same extent that such expenses were recognized under the comparable Employee Benefit Plans of Seller or its Affiliates. Buyer shall not provide any payment or incentive to any Transferred Employee to induce such employee to elect continued participation in any health care benefit plan of Seller or its Affiliates.

(b) Notwithstanding anything herein to the contrary, all Seller Benefit Plans and all assets of such Seller Benefit Plans are excluded from any sale, conveyance, assignment or transfer to Buyer under this Agreement and, from and after the Closing Date, the plan sponsor of each Seller Benefit Plan shall retain all existing right, title and interest in and to any and all assets, rights and liabilities in connection with and trusts related to Seller Benefit Plans, and Seller shall, or shall cause its Affiliates to, pay, settle, satisfy and discharge all obligations of the Companies and the Subsidiaries arising under such Seller Benefit Plans.

Section 6.3 Severance.

(a) *Payment of Severance Benefits.*

(i) (A) Each Employee (other than Excluded Employees) who does not receive a Comparable Job Offer from Buyer and is subsequently terminated by Seller or any of its Affiliates without Cause on or prior to December 31, 2012 shall receive from Seller or its Affiliates the severance pay and benefits specified in Section 6.3(a)(i) of the Disclosure Schedule and (B) each Transferred Employee terminated by Buyer or any of its Affiliates without Cause on or prior to December 31, 2012 shall receive from Buyer or its Affiliates the severance pay and benefits specified in Section 6.3(a)(i) of the Disclosure Schedule.

(ii) (A) Each Employee (other than Excluded Employees) who does not receive a Comparable Job Offer from Buyer and is subsequently terminated by Seller or any of its Affiliates without Cause on or after January 1, 2013 and within six (6) months after the Closing shall receive from Seller or its Affiliates the severance pay and benefits specified in Section 6.3(a)(ii) of the Disclosure Schedule and (B) each Transferred Employee terminated by Buyer or any of its Affiliates without Cause on or after January 1, 2013 and within twelve (12) months after the Closing shall receive from Buyer or its Affiliates the severance pay and benefits specified in Section 6.3(a)(ii) of the Disclosure Schedule.

(iii) All payments to Employees or Transferred Employees pursuant to this Section 6.3 shall be subject to the execution, delivery and non-revocation of a release of claims, in a form satisfactory to the party making the payment, in favor of Buyer, Seller and their respective Affiliates.

(iv) Except as may otherwise be required by Applicable Law, none of Seller, Buyer nor any of their respective Affiliates shall pay or provide severance benefits to any Excluded Employee.

(b) *Reimbursement of Severance Benefits*.

(i) With respect to all Employees (other than the Excluded Employees) who do not receive a Comparable Job Offer pursuant to Section 6.1, and to whom Seller pays severance benefits pursuant to Section 6.3(a)(i)(A) or (ii)(A), Buyer shall be responsible for reimbursing Seller for such severance benefits in accordance with this Section 6.3(b).

(ii) Buyer shall reimburse Seller for severance paid by Seller pursuant to Section 6.3(a)(i)(A) or (ii)(A) by Wire Transfer at the Closing to the extent known at that time.

(iii) Within sixty (60) days following the date that is six (6) months after the Closing, Buyer shall reimburse Seller for severance paid by Seller pursuant to Section 6.3(a)(i)(A) or (ii)(A), to the extent Seller was not previously reimbursed for such amounts at Closing pursuant to Section 6.3(b)(ii).

(iv) For purposes of this Section 6.3(b), amounts reimbursed by Buyer shall be reduced to take account of any Tax benefit realized by Seller or its Affiliates arising from the payment of such amounts, provided that such Tax benefit shall be calculated in accordance with the principles set forth in Section 10.3.

(c) *Termination Notices.* Seller shall be responsible for making all notices to Employees and Governmental Entities required by Applicable Law resulting from termination of Employees that are not Transferred Employees.

Section 6.4 Incentive Compensation; Pre-Closing Period.

(a) In the event the Closing Date occurs prior to the payment by Seller or one of its Affiliates of annual discretionary incentive awards for the 2012 performance period, Seller shall make an accrual on the Estimated Purchase Price Statement or provide to Buyer a payment equal to the aggregate amount accrued as of the Closing Date of any annual discretionary incentive awards for the 2012 performance period with respect to the Transferred Employees (the "2012 Bonus Accrual"); provided that the 2012 Bonus Accrual shall take into account all amounts to be paid by Seller and its Affiliates under the annual discretionary incentive awards, including any amounts to be deferred under the terms of any applicable plan. The 2012 Bonus Accrual is to be used by Buyer solely for the payment of 2012 annual discretionary incentive awards to the Transferred Employees, and shall be paid by Buyer to each of the Transferred

Employees on or about the date when Seller or its Affiliates normally pay such incentive awards and by no later than March 15, 2013 in such amounts as indicated in a schedule to be provided to Buyer by Seller no later than February 15, 2013. For purposes of clarity, if the Closing Date occurs after the payment date for the annual discretionary incentive awards for the 2012 performance period, Seller or its Affiliates shall use the 2012 Bonus Accrual to make such payments to Employees prior to the Closing Date.

(b) In the event the Closing Date occurs after December 31, 2012, but prior to the payment by Seller or its Affiliates of annual discretionary incentive awards for the 2013 performance period, Seller shall make an accrual on the Estimated Purchase Price Statement or provide Buyer a payment equal to the aggregate amount accrued as of the Closing Date of any annual discretionary incentive awards for the 2013 performance period with respect to the Transferred Employees (the "2013 Bonus Accrual"); provided that the 2013 Bonus Accrual shall take into account all amounts to be paid by Seller or its Affiliates under the annual discretionary incentive awards, including any amounts to be deferred under the terms of any applicable plan. The 2013 Bonus Accrual is to be used by Buyer solely for the payment of 2013 annual discretionary incentive awards to the Transferred Employees at the time that annual incentive awards will be paid to similarly situated employees of Buyer Parent's U.S. Affiliates.

(c) Within thirty (30) days after the final incentive award is paid by Buyer or an Affiliate of Buyer to a Transferred Employee pursuant to Section 6.4(a) and (b), Buyer shall provide Seller with a detailed accounting of all incentive award payments made to Transferred Employees and reimburse Seller by Wire Transfer any amounts by which the 2012 Bonus Accrual or the 2013 Bonus Accrual exceed the aggregate of all incentive award payments made to the Transferred Employees for the applicable performance periods.

(d) Seller and its respective Affiliates shall retain all liabilities for, and shall be responsible for the payment of, any formulaic incentive bonus amounts payable to the Transferred Employees for performance periods occurring prior to the Closing Date under any formulaic incentive plans maintained by Seller or its Affiliates (for example, under any monthly, quarterly or commissions-based plans), and such formulaic incentive plans shall not be taken into consideration when determining the obligations of Buyer and Seller under this Section 6.4.

Section 6.5 No Third Party Beneficiary Rights. Nothing contained in this Agreement shall confer upon any Employee or any Affiliate of Seller any right with respect to continued employment by Seller, the Companies, the Subsidiaries or Buyer or its Affiliates. No provision of this Agreement shall (a) create any third-party rights in any such Employee, or any beneficiary or dependent thereof, with respect to the compensation, terms and conditions of employment and benefits that may be provided to such Employee by Buyer, any Affiliate of Buyer, the Companies or any Subsidiary or under any benefit plan that Buyer, any Affiliate of Buyer, the Companies or any Subsidiary may maintain, (b) constitute or create or be deemed to constitute or create an employment agreement, (c) constitute or be deemed to constitute an amendment to any employee benefit plan sponsored or maintained by Buyer Parent's U.S. Affiliates, (d) interfere with or limit Buyer Parent's U.S. Affiliates right to amend or terminate any individual plan, program, policy or arrangement of Buyer Parent's U.S. Affiliates, the Companies or the Subsidiaries, or (e) obligate Buyer Parent's U.S. Affiliates, the Companies or the Subsidiaries to maintain or continue any individual plan, program, policy or arrangement.

ARTICLE VII

CONDITIONS PRECEDENT

Section 7.1 Conditions to Each Party's Obligations. The respective obligations of each party to effect the transactions contemplated by this Agreement are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Governmental Consents. All filings required to be made prior to the Closing Date with, and all consents, approvals, permits and authorizations required to be obtained prior thereto from, Governmental Entities in connection with the consummation of the transactions contemplated hereby by Seller and Buyer set forth in Section 3.5 and Section 4.3 of the Disclosure Schedule shall have been made or obtained and be in full force and effect.

(b) Canadian Antitrust Filing. The waiting period (and any extension thereof) applicable to the transactions contemplated hereby under any pre-acquisition filing requirement(s) applicable to the transactions contemplated by this Agreement under competition, antitrust or similar laws of Canada shall have been terminated or shall have otherwise expired.

(c) No Injunctions or Restraints. No Governmental Order issued by any court of competent jurisdiction and no Applicable Law of any Governmental Entity preventing the consummation of the transactions contemplated hereby shall be in effect, and no Governmental Entity shall have instituted any proceeding that is pending seeking any such Governmental Order.

(d) Consents. All consents, waivers, clearances, approvals and authorizations from third parties under the contracts and agreements set forth on Section 7.1(d) of the Disclosure Schedule as being required to be obtained prior to Closing shall have been obtained.

(e) Aggregate Closing Capital and Surplus. The Aggregate Closing Capital and Surplus reflected on the Estimated Purchase Price Statement shall not exceed the Aggregate Target Closing Capital and Surplus reflected on the Estimated Purchase Price Statement by more than $10,000,000.00.

Section 7.2 Conditions to Obligations of Buyer. The obligations of Buyer to effect the transactions contemplated by this Agreement are further subject to the satisfaction by Seller or waiver by Buyer on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Seller set forth in:

(i) Section 3.1, Section 3.2, Section 3.3, Section 3.4, Section 3.5, Section 3.6 and Section 3.19 shall be true and correct in all respects, in each case as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date);

(ii) this Agreement, other than those Sections specifically identified in clause (i) above, shall be true and correct in all material respects, in each case as of the date of this Agreement (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date), except, in the case of this clause (ii) that any representation or warranty qualified as to materiality or a Company Material Adverse Effect shall be true and correct in all respects; and

(iii) this Agreement, other than those Sections specifically identified in clause (i) above, shall be true and correct (without giving effect to any limitation as to materiality or a Company Material Adverse Effect set forth therein), in each case as of the Closing as though made at and as of the Closing (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date), except, in the case of this clause (iii), as would not have or reasonably be expected to have a Company Material Adverse Effect, either alone or when taken in the aggregate with other breaches of any such representations and warranties.

(b) Performance of Obligations of Seller. Seller shall have performed in all material respects all obligations required to be performed by it under this Agreement on or prior to the Closing Date; provided, that, with respect to obligations that are qualified by materiality, Seller shall have performed such obligations, as so qualified, in all respects.

(c) No Company Material Adverse Effect. Since the date of this Agreement, there shall not have been any Company Material Adverse Effect, nor shall any event or events have occurred that could reasonably be expected to have a Company Material Adverse Effect.

(d) No Actions. No Action shall have been commenced against Buyer Parent, Buyer, Seller, the Companies, the Subsidiaries or any of their respective Affiliates, which would prevent the Closing.

(e) Certain Actions. Seller shall have caused (i) all Affiliate Contracts to be terminated without any obligation or liability of the Companies or Subsidiaries on terms reasonably satisfactory to Buyer and (ii) all Intercompany Accounts to be settled in full (without any premium or penalty) in accordance with Section 5.7.

(f) Other Closing Deliveries. Buyer shall have received Seller deliveries set forth in Section 2.4.

Section 7.3 Conditions to Obligations of Seller. The obligations of Seller to effect the transactions contemplated by this Agreement are further subject to the satisfaction by Buyer or waiver by Seller on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Buyer set forth in:

(i) Section 4.1, Section 4.2, and 4.8 shall be true and correct in all respects, in each case as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date);

(ii) this Agreement, other than those Sections specifically identified in clause (i) above, shall be true and correct in all material respects, in each case as of the date of this Agreement (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date), except, in the case of this clause (ii) that any representation or warranty qualified as to materiality or material adverse effect shall be true and correct in all respects; and

(iii) this Agreement, other than those Sections specifically identified in clause (i) above, shall be true and correct (without giving effect to any limitation as to materiality or material adverse effect set forth therein), in each case as of the Closing Date as though made at and as of the Closing (except as to any representation or warranty which specifically relates to another date, the accuracy of which shall be determined as of that specified date), except in the case of this clause (iii), as would not have or reasonably be expected to have a material adverse effect, either alone or when taken in the aggregate with other breaches of any such representations and warranties, on Buyer's ability to consummate the transactions contemplated hereby on a timely basis.

(b) Performance of Obligations of Buyer. Buyer shall have performed in all material respects all obligations required to be performed by it under this Agreement on or prior to the Closing Date; provided, that, with respect to obligations that are qualified by materiality, Buyer shall have performed such obligations, as so qualified, in all respects.

(c) Consideration. Seller shall have received the Purchase Price as provided in Section 2.1.

(d) Other Closing Deliveries. Seller shall have received Buyer deliveries set forth in Section 2.5.

Section 7.4 Frustration of Closing Conditions. No party to this Agreement may rely on the failure of any condition set forth in this ARTICLE VII to be satisfied if such failure was caused by such party's failure to use commercially reasonable efforts to cause the Closing to occur, as required by Section 5.3 hereof.

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES

Section 8.1 Survival of Representations and Warranties. All representations and warranties contained in this Agreement shall survive the Closing solely for purposes of Section 9.1 and shall terminate and expire at the close of business 18 months after the Closing Date; provided that the representations and warranties contained in (a) Section 3.1 (Organization, Standing and Corporate Power), Section 3.2 (Capital Structure; Certain Indebtedness), Section 3.3 (Subsidiaries), Section 3.4 (Authority), Section 3.19 (Brokers), Section 4.1 (Organization, Standing and Corporate Power), Section 4.2 (Authority) and Section 4.8 (Brokers) shall survive

indefinitely and (b) Section 3.9 (Benefit Plans) (such Section, together with those identified in clause (a) above, the "Fundamental Representations") shall survive until sixty (60) days following the expiration of the applicable statute of limitations. All covenants and agreements contained in this Agreement, to the extent that the foregoing are to have effect or be performed after the Closing, shall survive the Closing in accordance with their terms. Notwithstanding anything to the contrary in this Agreement, the survival period with respect to all Tax matters shall be governed by Section 10.10.

ARTICLE IX

INDEMNIFICATION

Section 9.1 Obligation to Indemnify.

(a) Subject to the expiration of the representations and warranties of Seller as provided in ARTICLE VIII and the limitations set forth in this ARTICLE IX, Seller agrees to indemnify, defend and hold harmless Buyer and its Affiliates and their respective Representatives from and against all Losses to the extent arising from or related to (i) any inaccuracy in or breach of the representations and warranties of Seller contained in this Agreement or in any certificate, instrument or agreement delivered by or on behalf of Seller pursuant to this Agreement, in each case as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except with respect to any representation or warranty which specifically relates to another date, the inaccuracy in or breach of which will be determined as of such specified date), (ii) any breach of any of the covenants and agreements of Seller contained in this Agreement, (iii) the DFS Subpoena or the underlying matters related thereto, (iv) any Affiliate Payment, or (v) the CML Audit or the underlying matters related thereto.

(b) Seller shall not have any liability under Section 9.1(a)(i) above unless the aggregate of all such Losses for which Seller would, but for this proviso, be liable exceeds on a cumulative basis an amount equal to 2% of the Purchase Price (the "Indemnification Basket"), and then Seller would only be liable pursuant to Section 9.1(a)(i) to the extent any such Losses are in excess of the Indemnification Basket; provided, however, that Seller shall not have any liability under Section 9.1(a)(i) for any individual item where the Loss relating thereto is less than $75,000 ("De Minimis Items") and such De Minimis Items will not be taken into account in determining whether the aggregate amount of Losses exceeds the Indemnification Basket. Neither the Indemnification Basket nor the exception for De Minimis Items shall apply with respect to any Losses arising from or related to any inaccuracy in or breach of any Fundamental Representation of Seller.

(c) The maximum amount for which Seller shall be liable under Section 9.1(a)(i) shall not exceed 20% of the Purchase Price (the "Indemnification Cap"). The Indemnification Cap shall not apply to any and all Losses arising from or related to (i) any inaccuracy in or breach of any Fundamental Representation of Seller, or (ii) Seller's fraud, criminal activity or willful misconduct. Except for Losses arising from or related to (i) Seller's fraud, criminal activity or willful misconduct, (ii) the DFS Subpoena or the underlying matters related thereto, (iii) the Canadian Tax Audit or the underlying matters related thereto, or (iv) the

CML Audit or the underlying matters related thereto, for which Seller's liability shall, in each case, be unlimited, the maximum amount for which Seller shall be liable for Losses pursuant to this ARTICLE IX shall not exceed the Purchase Price and the maximum amount for which Seller shall be liable for Losses pursuant to ARTICLE X shall not exceed an amount equal to two times the Purchase Price.

(d) Subject to the expiration of the representations and warranties of Buyer as provided in ARTICLE VIII and the limitations set forth in this ARTICLE IX, Buyer agrees to indemnify, defend and hold harmless Seller and its Affiliates and their respective Representatives from and against all Losses to the extent arising from or related to (i) any inaccuracy in or breach of the representations and warranties of Buyer or Buyer Parent contained in this Agreement or in any certificate, instrument or agreement delivered by or on behalf of Buyer or Buyer Parent pursuant to this Agreement, in each case as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except with respect to any representation or warranty which specifically relates to another date, the inaccuracy in or breach of which will be determined as of such specified date) or (ii) any breach of any of the covenants and agreements of Buyer or Buyer Parent contained in this Agreement.

(e) Buyer or Buyer Parent shall not have any liability under Section 9.1(d)(i) above unless the aggregate of all such Losses for which Buyer or Buyer Parent would, but for this proviso, be liable exceeds on a cumulative basis the Indemnification Basket, and then Buyer or Buyer Parent would only be liable pursuant to Section 9.1(d)(i) to the extent any such Losses are in excess of the Indemnification Basket; provided, however, that Buyer or Buyer Parent shall not have any liability under Section 9.1(d)(i) for any De Minimis Items and such De Minimis Items will not be taken into account in determining whether the aggregate amount of Losses exceeds the Indemnification Basket. Neither the Indemnification Basket nor the exception for De Minimis Items shall apply with respect to any Losses arising from or related to any inaccuracy in or breach of any Fundamental Representation of Buyer.

(f) The maximum amount for which Buyer or Buyer Parent shall be liable under Section 9.1(d)(i) shall not exceed the Indemnification Cap. The Indemnification Cap shall not apply to any and all Losses arising from or related to (i) any inaccuracy in or breach of any Fundamental Representation of Buyer, or (ii) Buyer's fraud, criminal activity or willful misconduct. Except for Losses arising from or related to Buyer's fraud, criminal activity or willful misconduct, for which Buyer's liability shall be unlimited, the maximum amount for which Buyer or Buyer's Parent shall be liable for Losses pursuant to this ARTICLE IX shall not exceed the Purchase Price.

(g) For purposes of calculating Losses pursuant to this Section 9.1 and Section 10.1(a), any inaccuracy in or breach of any representation or warranty shall be determined without regard to any materiality, Company Material Adverse Effect or material adverse effect applicable to such representation or warranty.

Section 9.2 Indemnification Procedures.

(a) In order for a party (the "Indemnified Party") to be entitled to any indemnification provided for under this Agreement in respect of, arising out of or involving a claim or demand made by, or an action, proceeding or investigation instituted by, any Person not a party to this Agreement (a "Third Party Claim"), such Indemnified Party must notify the other party (the "Indemnifying Party") in writing, and in reasonable detail, of the Third Party Claim promptly, and in any event within thirty (30) days, after such Indemnified Party learns of the Third Party Claim; provided, however, that any delay or failure to give such notification shall not affect the indemnification provided hereunder except and only to the extent that the Indemnifying Party forfeits rights or defenses as a result of such failure. Thereafter, the Indemnified Party shall deliver to the Indemnifying Party, within ten (10) days after the Indemnified Party's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Party relating to the Third Party Claim.

(b) If a Third Party Claim is made against an Indemnified Party, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof at its own expense with counsel selected by the Indemnifying Party. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not as long as it conducts such defense be liable to the Indemnified Party for legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof, except as otherwise set forth herein. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense; provided, however, that if in the reasonable opinion of counsel to the Indemnified Party, (i) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party or (ii) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party, the Indemnifying Party shall be liable for the reasonable fees and expenses of one law firm to represent the Indemnified Party and, if applicable, local counsel in the jurisdiction in which an Action is held. The Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnified Party for any period during which the Indemnifying Party has not assumed the defense thereof. If the Indemnifying Party chooses to defend or prosecute any Third Party Claim, all of the parties hereto shall cooperate in the defense or prosecution thereof in all reasonable respects. Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information which are relevant to such Third Party Claim (subject, in each case, to the Indemnifying Party entering into a confidentiality agreement with respect to such records and information in a form reasonably acceptable to the Indemnified Party), and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. If the Indemnifying Party shall have assumed the defense of a Third Party Claim, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the Indemnifying Party's prior written consent, which consent shall not be unreasonably withheld. The Indemnifying Party shall not settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action giving rise to a Third Party Claim unless the Indemnifying Party obtains the prior written

consent of the Indemnified Party or such settlement, compromise, consent or termination (i) includes an express, unconditional release of such Indemnified Party in form and substance satisfactory to such Indemnified Party from any and all liability relating to such action, (ii) does not include any statement as to or any admission of fault, culpability or failure to act by or on behalf of any Indemnified Party and (iii) does not create any financial or other obligation on the part of the Indemnified Party. Notwithstanding the foregoing, in the event that such settlement, compromise, consent or termination is proposed in connection with the DFS Subpoena, such consent may not be unreasonably withheld or delayed.

(c) The indemnities provided in this Agreement shall survive the Closing; provided, however, that the indemnities provided under Section 9.1 shall terminate when the survival period of the applicable representation or warranty terminates pursuant to ARTICLE VIII, except as to any item as to which the Person to be indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a notice (stating in reasonable detail the basis of such claim) to the Indemnifying Party. After the Closing, the indemnities provided in Section 9.1 and Section 10.1(a) shall be the sole and exclusive remedy at law for any breach of representation, warranty, covenant or agreement (other than those covenants and agreements which survive the Closing, including those in ARTICLE IX) or other claim arising out of this Agreement except for claims based on fraud, criminal activity or willful misconduct.

(d) The amount of any Losses for which indemnification is provided under this Agreement shall be (i) net of any amounts actually received by the Indemnified Party from insurers or other third parties with respect to such Losses (less any related costs and expenses, including the aggregate cost of pursuing any insurance claims paid by the Indemnified Party, but not any premiums or charges paid by the Indemnified Party), (ii) net of any amounts taken into account as a reserve, accrual or expense in the calculation of Aggregate Closing Capital and Surplus as finalized in connection with the determination of the final Purchase Price pursuant to Section 2.6 with respect to the facts, circumstances or matters giving rise to such Losses, and (iii) reduced to take account of any Tax benefit realized by the Indemnified Party arising from the incurrence or payment of any such Losses, provided that such Tax benefit shall be calculated in accordance with the principles set forth in Section 10.3. Notwithstanding anything to the contrary contained herein, neither clause (iii) of the preceding sentence nor Section 10.3 shall apply to Losses incurred by HSBC DE or any Subsidiary thereof.

(e) Notwithstanding anything contained herein to the contrary, (i) no Indemnifying Party shall be liable for lost profits or any punitive, exemplary, consequential (but not incidental) or similar damages, except for lost profits or punitive, exemplary, consequential or similar damages (x) arising from or related to the DFS Subpoena, the Canadian Tax Audit, the CML Audit or, in each case, the underlying matters related thereto, or (y) actually paid to a third party in a Third Party Claim by an Indemnified Party, and (ii) no establishment or increase of or other adverse development in liabilities (or impairment of assets) for or in respect of losses or loss adjustment expenses under any policies or contracts of insurance written or assumed (or to be written or assumed) by a Company or a Subsidiary shall, in and of itself, be the basis for any claim by Buyer or any of its Affiliates that any representation or warranty in this Agreement has been breached.

(f) In accordance with Applicable Law, the Indemnified Party shall take, and shall cause its Affiliates to take, all commercially reasonable steps to mitigate any Losses upon and after becoming aware of any facts, matters, failures or circumstances that would reasonably be expected to result in any Losses that are indemnifiable hereunder.

(g) In the event of payment by or on behalf of any Indemnifying Party to any Indemnified Party (including pursuant to this ARTICLE IX) in connection with any claim or demand by any Person other than the parties hereto or their respective Affiliates, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnified Party as to any events or circumstances in respect of which such Indemnified Party may have any right, defense or claim relating to such claim or demand against any claimant or plaintiff asserting such claim or demand. Such Indemnified Party shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost of such Indemnifying Party, in presenting any subrogated right, defense or claim.

Section 9.3 Tax Treatment; Tax Indemnification. Except to the extent otherwise required by Applicable Law, any indemnity payment made pursuant to this ARTICLE IX or ARTICLE X hereof will be treated as an adjustment to the Purchase Price for all Tax purposes. Notwithstanding anything to the contrary in this Agreement, the rights and obligations of the parties with respect to indemnification for any and all Tax matters shall be governed by ARTICLE X hereof, and shall not be subject to this ARTICLE IX, except as expressly provided in this ARTICLE IX.

ARTICLE X

TAX MATTERS

Section 10.1 Indemnity.

(a) Seller agrees to indemnify, defend and hold harmless Buyer, the Companies and each Subsidiary against the following Taxes (except for Disclosed Taxes and 50% of Transfer Taxes, if any) including, except as otherwise provided in Section 10.5, any reasonable external out-of-pocket costs or expenses (including reasonable attorney's fees and expenses) incurred in contesting such Taxes ("Tax Contest Expenses"): (i) any Taxes (including for this purpose escheat-related obligations) arising from or related to a breach of the representations and warranties contained in Sections 3.9 (Benefit Plans) and 3.10 (Taxes; Unclaimed Property); (ii) any Taxes arising from or related to a breach of any of the covenants and agreements contained in this ARTICLE X which survive the Closing; (iii) any Taxes imposed on the Companies or any Subsidiary with respect to taxable periods of such Person ending on or before the Closing Date; (iv) with respect to taxable periods beginning before the Closing Date and ending after the Closing Date, any Taxes imposed on the Companies or any Subsidiary which are allocable, pursuant to Section 10.1(b), to the portion of such period ending on the Closing Date; and (v) any Taxes of Seller or an Affiliate of Seller (other than the Companies or any Subsidiary) imposed on the Companies or any Subsidiary by reason of Treasury Regulation Section 1.1502-6 (or any comparable provision under state, local or foreign law); provided, however, that all payments made pursuant to this Article X shall be subject to the indemnification limitations described in Section 9.1(c).

(b) In the case of Taxes that are payable with respect to a taxable period that begins before the Closing Date and ends after the Closing Date, the portion of any such Tax that is allocable to the portion of the period ending on the Closing Date shall be:

(i) in the case of Taxes that are either (A) based upon or related to income or receipts (other than premiums), or (B) imposed in connection with any sale or other transfer or assignment of property (real or personal, tangible or intangible) (other than conveyances pursuant to this Agreement, as provided under Section 10.7), deemed equal to the amount which would be payable if the taxable period ended on the Closing Date (based upon an interim closing of the books as of the Closing Date); and

(ii) in the case of Taxes imposed on a periodic basis with respect to the assets of the Companies or any Subsidiary, or otherwise measured by the level of any item, deemed to be the amount of such Taxes for the entire period (or, in the case of such Taxes determined on an arrears basis, the amount of such Taxes for the immediately preceding period), multiplied by a fraction the numerator of which is the number of calendar days in the period ending on the Closing Date and the denominator of which is the number of calendar days in the entire period; and

(iii) in the case of Taxes imposed on the basis of gross premiums, deemed equal to the amount of Taxes that would be payable based upon the amount of premium written as of the Closing Date.

(c) To the extent permitted under applicable law, the parties hereto agree for the purposes of this ARTICLE X to treat any payment or accrual of any incentive compensation amounts to which the provisions of Section 6.4 hereof apply as being allocable to the last taxable period (or portion thereof) for the relevant Company or Subsidiary ending on or before the Closing Date and, accordingly, that any Tax deduction related to such payment or accrual shall (i) be reflected on the federal income Tax Return for such entity for its taxable period ending on the Closing Date (and in a consistent manner on any applicable state, local, or non-U.S. Tax Returns) and (ii) in the event of any taxable period for any such entity that begins before the Closing Date and ends after the Closing Date, be treated as a deduction for the portion of such taxable period ending on the Closing Date for the purpose of making any determinations pursuant to Section 10.1(b) hereof. The parties agree to prepare (or cause to be prepared) the Tax Returns for the Companies and the Subsidiaries to which the provisions of Section 10.2 hereof apply consistently with this treatment. To the extent applicable law does not permit the above treatment, Buyer shall cause the payment or accrual of such amounts to be included and deducted on the relevant entity's earliest Tax Return with respect to which such amounts may be deducted pursuant to Applicable Law, and shall pay to Seller any Tax benefit realized by Buyer, the Companies, or the Subsidiaries applicable to the deductibility of such payment or accrual promptly following the date such Tax benefit is realized.

(d) Notwithstanding any provision of this Agreement to the contrary, neither Seller nor any Affiliate of Seller (other than the Companies or the Subsidiaries) shall be liable or responsible for, or shall be required to indemnify Buyer, the Companies, or the Subsidiaries for, any Taxes arising out of, relating to or resulting from any transactions or actions engaged in by the Companies or any Subsidiary not in the ordinary course of business or taken solely by or at

the direction of Buyer or any Affiliate thereof that occur on the Closing Date but after the Closing (an "Extraordinary Transaction"). Buyer shall indemnify and hold harmless Seller and its Affiliates for any Tax owed by any Person arising out of, relating to, or resulting from any Extraordinary Transaction, and Buyer and Seller agree to report all Extraordinary Transactions utilizing the "next day rule" of Treasury Regulation Section 1.1502-76(b)(1)(ii)(B).

(e) Buyer shall pay to Seller the excess of any amount accrued as a liability for Taxes (or otherwise taken into account) in the calculation of Aggregate Closing Capital and Surplus as finalized in connection with the determination of the final Purchase Price pursuant to Section 2.6 over the actual amount of the Companies' and the Subsidiaries' Tax liabilities for the relevant taxable period (or portion thereof determined in accordance with Section 10.1(b)). Such actual amount of the Companies' and the Subsidiaries' Tax liabilities for such period shall (i) with respect to any taxable period for which a Tax Return is filed pursuant to Sections 10.2(a) or (b), be the amount of the Tax set forth on the applicable Tax Return as so filed, and (ii) with respect to any other taxable period, be the amount of the Tax for such period as determined on audit or otherwise (in either case, including as calculated under any applicable Tax sharing agreement with respect to such taxable period). Such payment shall be made within ten (10) days of the relevant Tax Returns having been filed or the determination of such Tax amount on audit or otherwise, as applicable. Notwithstanding anything to the contrary, Buyer shall not be required to pay to Seller any amount resulting (i) from a carryback of a loss or credit from a taxable period (or portion thereof, determined in accordance with Section 10.1(b)) beginning after the Closing Date or (ii) in the case of a taxable period described in Section 10.1(b), from an offset of deductions, losses or credits accruing in the portion of such period that begins after the Closing Date against income, gains or Tax liabilities that accrued in the portion of such period that ends on the Closing Date.

(f) Notwithstanding anything to the contrary contained herein, Seller shall not be responsible for or required to indemnify or hold harmless Buyer, the Companies, or any Subsidiary from or against (i) any Tax that is included in the Disclosed Taxes, or (ii) any Transfer Taxes in excess of Seller's 50% share thereof.

Section 10.2 Returns and Payments.

(a) Seller shall prepare or cause to be prepared, and file or cause to be filed, on a timely basis, all consolidated, unitary, combined, or similar Tax Returns that include any Company or any Subsidiary and Seller or any Affiliate of Seller (other than the Companies or the Subsidiaries) (the "Consolidated Tax Returns") for any taxable period (or portion thereof, determined in accordance with Section 10.1(b)) ending on or before the Closing Date, and shall, except as set forth below for the HLIC Illinois Return, pay all Taxes reflected on such Tax Returns. To the extent that any portion of the Tax due with respect to any HLIC Illinois Return prepared by Seller pursuant to this Section 10.2(a) is reflected in Disclosed Taxes, Buyer shall, or shall cause HLIC DE to, pay the amount of such Tax to Seller promptly upon request by Seller. The Companies and the Subsidiaries shall furnish Tax information to Seller and the appropriate Affiliates of Seller and shall cooperate with Seller and the appropriate Affiliates of Seller as reasonably necessary to prepare and file the Consolidated Tax Returns in accordance with Seller's, the Companies' and the Subsidiaries' past custom and practice.

(b) Buyer shall prepare or cause to be prepared and file or cause to be filed on a timely basis all Tax Returns with respect to the Companies and/or the Subsidiaries for any taxable period (or portion thereof, determined in accordance with Section 10.1(b)) ending on or before the Closing Date that are due after the Closing Date, other than the Consolidated Tax Returns, and, subject to any potential indemnity for Taxes as provided in Section 10.1(a), pay all Taxes reflected on such Tax Returns. All such Tax Returns shall be prepared in accordance with the past custom and practice of the Companies and the Subsidiaries (except to the extent counsel for Buyer determines that there is no substantial authority therefor).

(c) Buyer shall provide Seller with a copy of each Tax Return required to be prepared (or caused to be prepared) by Buyer pursuant to Section 10.2(b) hereof at least thirty (30) Business Days prior to the due date (including any extension thereof) for the filing of such Tax Return, Seller shall have the right to review and comment on such Tax Return prior to the filing of such Tax Return, and Seller shall provide Buyer written notice of any objections it has with respect to such Tax Returns (a "Tax Dispute") within ten (10) Business Days of the delivery of such Tax Return. In the event of any such objections, the parties shall in good faith attempt to resolve such dispute for a period of five (5) Business Days following the date on which Buyer was notified of the Tax Dispute; provided, that if such dispute is not settled within such time period, the parties shall promptly submit all such remaining disputed matters to the Independent Accounting Firm for resolution in a timely manner so that such Tax Return may be timely filed. If the Independent Accounting Firm is unable to make a determination with respect to any disputed issue within five (5) Business Days before the due date (including extensions) for the filing of the Tax Return in question, then Buyer may file such Tax Return on the due date (including extensions) therefor without such determination having been made and without the consent of Seller; provided, however, that such Tax Return shall incorporate such changes as have at the time of such filing been agreed to by the parties pursuant to this Section 10.2(c). Notwithstanding the filing of such Tax Return, the Independent Accounting Firm shall make a determination with respect to any disputed issue, and the amount of Taxes, if any, with respect to which Seller or Buyer may be responsible pursuant to this ARTICLE X shall be calculated consistently with such determination. The decision by the Independent Accounting Firm shall be final and binding on the parties with respect to how any such Tax Return should be filed. Notwithstanding anything in this Agreement to the contrary, the fees and expenses relating to the Independent Accounting Firm pursuant to this Section 10.2(c) shall be borne in inverse proportion to the degree that each party prevails on the Tax Dispute, which proportionate allocation will also be determined by the Independent Accounting Firm.

Section 10.3 Tax Benefits. Any indemnifiable Tax Losses payable by an indemnifying party under this ARTICLE X shall be reduced by the amount of any currently available net Tax benefit actually realized by or available to be realized by the Indemnified Party (or any Affiliate thereof) resulting from such Tax Losses. For the purposes of this Section 10.3, a Tax benefit shall be currently available to the extent that it results, or with commercially reasonable steps capable of being taken by the Indemnified Party (or any Affiliate thereof) would result, in a refund of or actual reduction in Tax with respect to the taxable period in which the Loss is incurred or indemnification is paid, or any prior taxable period starting on or after the Closing Date, or on any Tax Return with respect thereto. In the event that a Tax benefit is realized for the taxable period in which an indemnification payment is payable but has not yet been realized at

the time such indemnification payment is paid, the full indemnification amount shall be payable, and the amount equal to the Tax benefit shall be repaid to the Indemnifying Party at such time as the Tax benefit is realized. In the event such Tax benefit amount shall ultimately be determined to differ from the amount initially computed for purposes of this Section 10.3, the amount payable under this Section 10.3 shall be appropriately adjusted.

Section 10.4 Tax Refunds; Amended Returns. Any Tax refund (including any interest with respect thereto) relating to the Companies or any Subsidiary for Taxes paid for any taxable period (or portion thereof, calculated in accordance with Section 10.1(b)) ending on or prior to the Closing Date and not reflected or otherwise taken into account as an asset in the calculation of Aggregate Closing Capital and Surplus as finalized in connection with the determination of the final Purchase Price pursuant to Section 2.6 shall be the property of Seller, and if received by Buyer or the Companies or any Subsidiary shall be paid over promptly to Seller; provided, however, that any such Tax refund that is attributable to a carryback of a Company's or any Subsidiary's loss or credit from a taxable period or portion thereof beginning after the Closing Date shall be the property of Buyer. Upon a reasonable request from Seller or an Affiliate of Seller, Buyer shall cooperate, and cause the Companies and the Subsidiaries to cooperate, in filing amended Tax Returns or claims for refund or other appropriate similar information to obtain a refund or credit that Seller is entitled to pursuant to this Section 10.4. Except to the extent authorized by the next succeeding sentence related to permissible carrybacks of post-closing Tax attributes, Buyer shall not otherwise cause or permit the Companies or any of the Subsidiaries to amend or modify any Tax Return of the Companies or any Subsidiary relating to any taxable period (or portion thereof, determined in accordance with Section 10.1(b)) ending on or before the Closing Date without the written consent of Seller, which consent may be withheld in its sole discretion. Buyer and Seller agree that the Companies and the Subsidiaries may carry back post-closing net operating loss, post-closing loss from operations, post-closing credit, or other post-closing Tax attributes of the Companies or the Subsidiaries to taxable periods (or portions thereof, determined in accordance with Section 10.1(b)) of the Companies or the Subsidiaries that end on or prior to the Closing Date to the extent that such carrybacks do not affect any consolidated, combined, unitary, or other similar group that includes any member other than the Companies or the Subsidiaries (excluding, for this purpose, any such group to the extent related to an HLIC Illinois Return). For the purpose of clarity, the parties agree that any such carryback that affects any consolidated, combined, unitary, or other similar group that includes any member other than the Companies or the Subsidiaries (other than any such group to the extent related to an HLIC Illinois Return) shall require the written consent of Seller, which consent may be withheld in its sole discretion.

Section 10.5 Tax Contests.

(a) After the Closing, Buyer shall promptly notify Seller in writing of the commencement of any Tax Contest. Such notice shall contain factual information (to the extent known to Buyer, the Companies or any Subsidiary) describing the asserted Tax liability in reasonable detail and shall include copies of any notice or other document received from any Taxing Authority in respect of any such asserted Tax liability; provided, however, that any delay or failure to give such prompt notification shall not affect Seller's obligation to provide indemnification pursuant to Section 10.1(a) with respect to such Tax Contest except and only to the extent that Seller forfeits rights or defenses as a result of such failure.

(b) In the case of any Tax Contest that relates to (i) a taxable period ending on or before, or that includes, the Closing Date, (ii) any matter which could increase Seller's liability for Taxes (including Taxes which Seller is required to pay pursuant to Section 10.1(a) of this Agreement) or (iii) any matter that could otherwise adversely affect Seller, Seller shall have the right, upon written notice to Buyer, to participate in or, with respect to any taxable period (or portion thereof (determined in accordance with Section 10.1(b)), ending on or before the Closing Date, assume the defense of and control the conduct of such Tax Contest or, in the case of a portion of a taxable period, the portion of such Tax Contest that relates to such portion (but only to the extent that the relevant governmental or judicial party conducting such Tax Contest permits such portion of such Tax Contest to be controlled by Seller at the same time as the portion of such Tax Contest that relates to the remainder of such taxable period is controlled by Buyer). If Seller does not assume the defense of any such Tax Contest or portion thereof, Buyer may defend the same in such manner as it may deem appropriate, including settling such Tax Contest or portion of such Tax Contest (subject, however, to Section 10.5(c) if such settlement would adversely affect Seller) after giving ten (10) days' prior written notice to Seller setting forth the terms and conditions of settlement. In the event of a Tax Contest that involves issues relating to a potential adjustment for which Seller has the right to control the conduct of such Tax Contest that also involves separate issues relating to a potential adjustment for which Seller does not have the right to control the conduct of such Tax Contest, Buyer shall have the right, at its expense, to control the Tax Contest but only with respect to the latter issues.

(c) Neither Buyer nor Seller shall enter into any compromise or agree to settle any claim pursuant to any Tax Contest which would adversely affect the other party for such year or a subsequent or prior year without first obtaining the written consent of the other party, which consent may not be unreasonably withheld or delayed.

(d) Notwithstanding any other provision in this Agreement to the contrary, Seller and its Affiliates shall exclusively control the conduct of any notice of deficiency, proposed adjustment, assessment, audit, examination or other administrative or judicial proceeding, suit, dispute or other claim involving any Consolidated Tax Return, and Seller and its Affiliates shall have sole discretion in administering any such claims including the right to settle such claims.

Section 10.6 Cooperation and Exchange of Information. Seller and Buyer, and their respective Affiliates, shall provide each other with such cooperation and information as either of them reasonably may request of the other in filing any Tax Return, amended Tax Return or claim for refund, determining a liability for Taxes or a right to a refund of Taxes or participating in or conducting any Tax Contest or any audit or similar examination of Seller or Buyer or their respective Affiliates in respect of Taxes. Such cooperation and information shall include, but not be limited to, providing copies of relevant Tax Returns or portions thereof, together with accompanying schedules, related work papers and documents relating to rulings or other determinations by Taxing Authorities. Each party and its Affiliates shall make its employees available on a basis mutually convenient to both parties to provide explanations of any documents or information provided hereunder. Seller and Buyer shall each retain all Tax

Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of the Companies and the Subsidiaries for each taxable period first ending after the Closing Date and for all prior taxable periods until the later of (i) the expiration of the statute of limitations of the taxable periods to which such Tax Returns and other documents relate, without regard to extensions except to the extent notified in writing of such extensions for the respective Tax periods, or (ii) three (3) years following the due date (without extension) for such returns. None of Seller, on the one hand, or Buyer, the Companies, or the Subsidiaries, on the other hand, shall dispose of any such materials unless it first offers in writing to the other party the right to take possession of such materials at such other party's sole expense and the other party fails to accept such offer within fifteen (15) Business Days of the offer being made. Any information obtained under this Section 10.6 shall be kept confidential except as may be otherwise necessary in connection with the filing of Tax Returns or claims for refund or in conducting a Tax Contest or as otherwise may be required by applicable law, regulation or the rules of any stock exchange.

Section 10.7 Transfer Taxes. Each of Buyer and Seller shall be liable for and shall hold the other party harmless against 50% of any real property transfer or gains, sales, use, transfer, value added, stock transfer, and stamp taxes, any transfer, recording, registration, and other fees, and any similar Taxes (collectively, "Transfer Taxes") which become payable in connection with the transactions contemplated by this Agreement, and Buyer shall file such applications and documents as shall permit any such Tax to be assessed and paid on or prior to the Closing Date in accordance with any available pre-sale filing procedure. Buyer or Seller, as appropriate, shall execute and deliver all instruments and certificates reasonably required to obtain the benefit of any available exemptions from or reductions in any such Transfer Taxes or to enable the other to comply with any filing requirements relating to any such Taxes.

Section 10.8 Termination of Tax Sharing Agreements. As of the Closing Date, Seller shall cause the Companies' and the Subsidiaries' participation in all written Tax allocation and Tax sharing agreements and arrangements between Seller and its Affiliates (other than the Companies or the Subsidiaries), on the one hand, and the Companies and the Subsidiaries, on the other hand, to be terminated as of the Closing Date; provided, however, that such termination shall not excuse the Companies and the Subsidiaries from making all payments due to Seller or any such Affiliate of Seller under such agreement for any taxable period (or portion thereof, determined in accordance with Section 10.1(b)) ending on or before the Closing Date. The payment and calculation of any payments due and owing with respect to the preceding sentence shall be made in a time and manner consistent with past practice.

Section 10.9 Section 338 Election.

(a) Seller and Buyer will join in making an election under Section 338(h)(10) of the Code (and any corresponding election under state, local or non-U.S. Tax law) with respect to the purchase and sale of the Shares of HSBC DE hereunder (the "Section 338(h)(10) Election"). Buyer shall be responsible for timely filing the Election Forms (as defined below); provided that Seller has delivered the executed Form 8023 described in Section 2.4(i) hereof to Buyer on or before the Closing Date. Except as otherwise provided by Section 10.7, Seller or HSBC North America Holdings, Inc. shall pay or otherwise be responsible for any Tax imposed on HSBC DE resulting from the deemed asset sale pursuant to the Section 338(h)(10) Election, and Seller shall indemnify Buyer, the Companies and the Subsidiaries against any such Taxes.

(b) Seller and Buyer agree that, for the purposes of the Section 338(h)(10) Election, the aggregate deemed sales price (within the meaning of Treasury Regulations Section 1.338-4) and the amount of the adjusted grossed-up basis (within the meaning of Treasury Regulations Section 1.338-5) for Buyer's purchase of the Shares of HSBC DE shall be allocated among the assets of HSBC DE in a manner consistent with Code Sections 338 and 1060 and the regulations thereunder (the "Asset Allocation"). For the purposes of clarity, the amount of the aggregate Purchase Price allocated to the sale of the HSBC DE shares as set forth on Exhibit D (as adjusted to reflect the calculation of the final Purchase Price pursuant to Section 2.6) shall be used to determine the aggregate deemed sales price for the purposes of the foregoing sentence. Buyer shall, not later than forty-five (45) days after the Settlement Date referred to in Section 2.6(c), provide to Seller for its review and comment a calculation of the Asset Allocation. Within fifteen (15) days after the delivery of such Asset Allocation, Seller will propose to Buyer in writing any reasonable changes to the Asset Allocation (and in the event no such changes are so proposed to Buyer within such time period, Seller will be deemed to have accepted and agreed to the Asset Allocation in the form provided). Seller and Buyer will attempt in good faith to resolve any timely raised issues arising as a result of Seller's review of such Asset Allocation within ten (10) days after Buyer's receipt of a timely written notice of objection from Seller. If Seller and Buyer are unable to agree on the Asset Allocation within such time period, Seller and Buyer shall jointly request the Independent Accounting Firm to resolve any issue in dispute promptly, and in any event at least thirty (30) days before the due date for filing the first Tax Return as to which the Asset Allocation is relevant, with the fees and expenses of the Independent Accounting Firm borne in inverse proportion to the degree that each party prevails on the issues in dispute, which proportionate allocation will also be determined by the Independent Accounting Firm. Buyer shall prepare any state, local or non U.S. Tax forms (and any required attachments) required to make the Section 338(h)(10) Election (collectively, together with the IRS Form 8023 described in Section 2.4(i) hereof, the "Election Forms" and each an "Election Form") consistently with the IRS Form 8023 described in Section 2.4(i) hereof and shall submit the Election Forms to Seller prior to Closing. Except as set forth below with respect to a revised Asset Allocation, each of Buyer, HSBC DE, and Seller shall file all Tax Returns (including IRS Form 8883) in a manner consistent with the Section 338(h)(10) Election and the Asset Allocation as so finalized and shall not take any position inconsistent with the Section 338(h)(10) Election or the Asset Allocation as so finalized for any Tax reporting purpose, upon examination of any Tax Return, in any refund claim, or in any litigation, investigation or otherwise, unless otherwise required by a determination (within the meaning of Section 1313(a) of the Code or any similar provision of state, local or non-U.S. applicable Tax law). In the event that any adjustment to the purchase price for the HSBC DE Shares is required to be made as a result of indemnification under ARTICLE IX or ARTICLE X or otherwise, Buyer shall prepare or cause to be prepared in a reasonable manner, and shall provide to Seller, a revised Asset Allocation reflecting such adjustment. Such revised Asset Allocation shall be subject to review and resolution of timely raised disputes in the same manner as the initial Asset Allocation. To the extent required, each of Buyer, HSBC DE, and Seller shall file all Tax Returns (including a revised IRS Form 8883) in a manner consistent with the Asset Allocation as so revised and shall not (except pursuant to any further revision to the Asset Allocation in accordance with this Section 10.9(b)) take any position inconsistent with the Section 338(h)(10) Election or the Asset Allocation as so revised for any Tax reporting purpose, upon examination of any Tax Return, in any refund claim, or in any litigation, investigation or otherwise, unless otherwise required by a determination (within the meaning of Section 1313(a) of the Code or any similar provision of state, local or non-U.S. applicable Tax law).

(c) Notwithstanding anything to the contrary contained herein, Buyer shall not make any election (other than the Section 338(h)(10) Election referenced above) under Section 338 of the Code with respect to any of the transactions contemplated by this Agreement.

Section 10.10 Miscellaneous.

(a) Seller and Buyer agree to treat all payments made by either of them to or for the benefit of the other (including any payments to the Companies or any Subsidiary) under this ARTICLE X or under other indemnity provisions of this Agreement as adjustments to the Purchase Price for all Tax purposes and that such treatment shall govern for purposes hereof except to the extent that the Applicable Laws of a particular jurisdiction provide otherwise.

(b) Notwithstanding any provision in this Agreement to the contrary, the provisions of Section 3.10 (Taxes; Unclaimed Property) and this ARTICLE X, including the obligations of Seller to indemnify and hold harmless Buyer, the Companies and the Subsidiaries pursuant to this ARTICLE X, shall survive, and shall not terminate, until sixty (60) days after the expiration of the applicable statute of limitations.

ARTICLE XI

TERMINATION PRIOR TO CLOSING

Section 11.1 Termination of Agreement. This Agreement may be terminated at any time prior to the Closing:

(a) by the written agreement of Buyer and Seller;

(b) by either Seller or Buyer by written notice to the other parties if the Closing shall not have occurred on or prior to the date that is 270 days from the date of this Agreement (the "Termination Date"), or such later date upon which Seller and Buyer may agree in writing; provided, however, that the right to terminate this Agreement under this Section 11.1(b) shall not be available to any party whose breach of this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date;

(c) by either Seller or Buyer in writing, if there shall be any (i) Applicable Law that makes consummation of the transactions contemplated hereby illegal or otherwise prohibited or (ii) Governmental Order which prohibits or restrains any party from consummating the transactions contemplated hereby, and such Governmental Order shall have become final and nonappealable;

(d) by Buyer, if the Companies, the Subsidiaries or Seller shall have (i) failed to perform any of their covenants or agreements contained in this Agreement, such that any of the conditions set forth in Section 7.1 or Section 7.2 would not be satisfied and such failure to perform is incapable of being cured or, if capable of being cured, has not been cured within

thirty (30) days after the giving of written notice thereof by Buyer to Seller but in no event later than the Termination Date or (ii) breached any of their representations or warranties contained in this Agreement, such that any of the conditions set forth in Section 7.2 would not be satisfied and such breach is incapable of being cured or, if capable of being cured, has not been cured within thirty (30) days after the giving of written notice thereof by Buyer to Seller but in no event later than the Termination Date; provided, however, that Buyer may not terminate this Agreement pursuant to this Section 11.1(d) if Buyer is then in breach in any material respect of any of its representations, warranties, covenants or agreements contained in this Agreement; or

(e) by Seller, if Buyer shall have (i) failed to perform any of its covenants or agreements contained in this Agreement, such that any of the conditions set forth in Section 7.1 or Section 7.3 would not be satisfied and such failure to perform is incapable of being cured or, if capable of being cured, has not been cured within thirty (30) days after the giving of written notice thereof by Seller to Buyer, but in no event later than the Termination Date or (ii) breached any of its representations or warranties contained in this Agreement, such that any of the conditions set forth in Section 7.3 would not be satisfied and such breach is incapable of being cured or, if capable of being cured, has not been cured within thirty (30) days after the giving of written notice thereof by Seller to Buyer, but in no event later than the Termination Date; provided, however, that Seller may not terminate this Agreement pursuant to this Section 11.1(e) if Seller is then in breach in any material respect of any of its representations, warranties, covenants or agreements contained in this Agreement.

Section 11.2 Effect of Termination. In the event of termination pursuant to Section 11.1, this Agreement shall become null and void and have no effect, with no liability on the part of Seller, the Companies, the Subsidiaries, Buyer or Buyer Parent, or their respective directors, officers, agents or shareholders, with respect to this Agreement; provided, however, that the obligations contained in (i) Section 5.2 (Access to Information; Confidentiality); (ii) Section 5.6 (Publicity; Notices), (iii) the Confidentiality Agreement, (iv) this Section 11.2; and (v) ARTICLE XII (General Provisions) shall survive any termination of this Agreement indefinitely or for such shorter period specifically contemplated by those Sections or the Confidentiality Agreement. Notwithstanding the foregoing, termination of this Agreement pursuant to Section 11.1(d) or Section 11.1(e) shall not in any way terminate, limit or restrict the rights and remedies of any party hereto against any other party for willful breach of a material covenant or agreement contained in this Agreement.

ARTICLE XII

GENERAL PROVISIONS

Section 12.1 Fees and Expenses. Except as otherwise expressly provided herein, whether or not the purchase and sale of the Shares is consummated, each party hereto shall pay its own fees and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby. For the avoidance of doubt, Seller shall be solely responsible for the payment of all of the transaction expenses incurred by or on behalf of Seller, the Companies or the Subsidiaries incident to the transaction which is the subject of this Agreement, including investment banking fees, accounting fees and legal fees.

Section 12.2 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given if delivered personally, by facsimile (which is confirmed as provided below) or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(1) if to Buyer, to

Pavonia Holdings (US), Inc.
c/o Enstar Group Limited
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
Fax: (441) 296-0895
Attention: Richard J. Harris, Chief Financial Officer

with a copy to:

Drinker Biddle & Reath LLP
One Logan Square, Suite 2000
Philadelphia, PA 19130
Fax: 215-988-2757
Attention: Robert C. Juelke

(2) if to Seller, to

HSBC North America Holdings Inc.
452 Fifth Avenue, Floor 10
New York, NY 10018
Fax: 212-525-6994
Attention: Stuart Alderoty, Senior Executive Vice President
and General Counsel

with a copy to:

Edwards Wildman Palmer LLP
20 Church Street
Hartford, CT 06103
Fax: (888) 325-9082
Attention: Theodore P. Augustinos

Notice given by personal delivery or overnight courier shall be effective upon actual receipt. Notice given by facsimile shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next Business Day if not received during the recipient's normal business hours. All notices by facsimile shall be confirmed promptly after transmission in writing by personal delivery or overnight courier.

Section 12.3 Interpretation. When a reference is made in this Agreement to a section, exhibit or schedule, such reference shall be to a section of, or an exhibit or schedule to, this Agreement unless otherwise indicated. The inclusion of any information in the Disclosure Schedule will not be deemed an admission or acknowledgment, in and of itself and solely by virtue of the inclusion of such information in the Disclosure Schedule, that such items are material to the Companies or the Subsidiaries. The specification of any dollar amount in the Disclosure Schedule is not intended to imply that such amount, or higher or lower amounts is or is not material for purposes of this Agreement and no party shall use the fact of the setting forth of such amount in any dispute or controversy between the parties as to whether any obligation, item or matter not described therein is or is not material for purposes of this Agreement. Unless this Agreement specifically provides otherwise, neither the specification of any item or matter in any representation or warranty contained in this Agreement nor the inclusion of any specific item in the Disclosure Schedule is intended to imply that such item or matter, or other items or matters, are or are not in the ordinary course of business, and no party shall use the fact of the setting forth or the inclusion of any such item or matter in any dispute or controversy among the parties as to whether any obligation, item or matter not described in this Agreement or included in any Disclosure Schedule is or is not in the ordinary course of business for purposes of this Agreement. The disclosure of an item in one section of the Disclosure Schedule as an exception to a particular covenant, representation or warranty will be deemed adequately disclosed as an exception with respect to all other covenants, representations or warranties to the extent that the relevance of such item to such other covenants, representations or warranties is reasonably apparent on the face of such item, notwithstanding the presence or absence of an appropriate section of the Disclosure Schedule with respect to such other covenants, representations or warranties or an appropriate cross-reference thereto. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” Whenever the singular is used herein, the same shall include the plural, and whenever the plural is used herein, the same shall include the singular, where appropriate. Unless the context otherwise requires, references herein to a Contract means such Contract as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and to a statute means such statute as amended from time and includes any successor legislation thereto and any regulations promulgated thereunder.

Section 12.4 Entire Agreement; Third-Party Beneficiaries. This Agreement (including all exhibits and schedules and the Disclosure Schedule hereto) and the Confidentiality Agreement constitute the entire agreement, and supersede all prior agreements, understandings, representations and warranties, both written and oral, among the parties with respect to the subject matter of this Agreement. Except as expressly provided herein, this Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies.

Section 12.5 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

Section 12.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties, and any such assignment that is not consented to shall be null and void. Notwithstanding the foregoing sentence, Buyer may, to the extent not inconsistent with its other obligations hereunder, assign prior to Closing its rights to purchase the Shares or any portion thereof to any Affiliate of Buyer Parent with the prior written consent of Seller, which consent shall not be unreasonably withheld. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 12.7 Dispute Resolution; Submission to Jurisdiction.

(a) In the event of any dispute arising under this Agreement, prior to the commencement of litigation, a senior officer of Buyer and a senior officer of Seller shall attempt in good faith to resolve the dispute consistent with the terms of this Agreement. If they are unable to resolve the dispute in this manner within a reasonable period of time, the parties may pursue judicial remedies with respect to such dispute. This section shall not apply to any application to obtain emergency judicial intervention.

(b) Each of Seller and Buyer hereby irrevocably and unconditionally submits to the exclusive jurisdiction of any court of the United States or any state court, which in either case is located in Delaware (each, a "Delaware Court") for purposes of enforcing this Agreement. In any such action, suit or other proceeding, each of Seller and Buyer irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise any claim that it is not subject to the jurisdiction of any such Delaware Court, that such action, suit or other proceeding is not subject to the jurisdiction of any such Delaware Court, that such action, suit or other proceeding is brought in an inconvenient forum or that the venue of such action, suit or other proceeding is improper; provided, however, that nothing set forth in this sentence shall prohibit either Seller or Buyer from removing any matter from one Delaware Court to another Delaware Court. Each of Seller and Buyer also agrees that any final and unappealable judgment against a party hereto in connection with any action, suit or other proceeding shall be conclusive and binding on such party and that such award or judgment may be enforced in any court of competent jurisdiction, either within or outside of the United States. A certified or exemplified copy of such award or judgment shall be conclusive evidence of the fact and amount of such award or judgment. Seller and Buyer agree that any process or other paper to be served in connection with any action or proceeding under this Agreement shall, if delivered, sent or mailed in accordance with Section 12.2, constitute good, proper and sufficient service thereof.

Section 12.8 WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY LAW, THE PARTIES HERETO HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON, ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT, THE

TRANSACTIONS CONTEMPLATED HEREBY OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

Section 12.9 Severability; Amendment and Waiver.

(a) Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under Applicable Law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any Applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

(b) This Agreement may be amended, and the terms hereof may be waived, only by a written instrument signed by each of the parties or, in the case of a waiver, by the party waiving compliance.

(c) No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege, nor any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege.

Section 12.10 Certain Limitations. Without limiting the generality of Section 3.29 of this Agreement, no Person has made any representation or warranty to Buyer with respect: (i) to the Confidential Information Memorandum, dated as of February 2012, as amended or supplemented from time to time; or (ii) any financial projection or forecast relating to the business of the Companies and the Subsidiaries.

Section 12.11 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 12.12 Conflicts and Privilege. Buyer, Buyer Parent, the Companies and the Subsidiaries hereby agree that, in the event a dispute arises under or in connection with this Agreement after the Closing between Buyer, Buyer Parent, the Companies or the Subsidiaries, on the one hand, and Seller, on the other hand, Edwards Wildman Palmer LLP may represent Seller in such dispute even though the interests of Seller may be directly adverse to the

Companies or the Subsidiaries, and even though Edwards Wildman Palmer LLP may have represented the Companies or the Subsidiaries in a matter substantially related to the dispute, or may be handling ongoing matters for the Companies and the Subsidiaries. Buyer, Buyer Parent, the Companies, the Subsidiaries and Seller further agree that, as to all communications between Edwards Wildman Palmer LLP, the Companies, the Subsidiaries and Seller that relate, both prior to or after the Closing, to (a) the transactions contemplated by this Agreement, including without limitation the negotiation, preparation, execution, delivery and closing under, or any dispute arising under or in connection with this Agreement which, immediately prior to the Closing, would be covered by the attorney-client privilege of Seller and its counsel, and (b) the DFS Subpoena, the attorney-client privilege and the expectation of client confidence belongs to Seller and may be controlled by Seller, and shall not pass to or be claimed or controlled by the Companies or the Subsidiaries; provided, that Seller shall not waive such attorney-client privilege other than to the extent appropriate in connection with the enforcement or defense of their respective rights or obligations existing under this Agreement. Notwithstanding the foregoing, in the event a dispute arises between Buyer, Buyer Parent, the Companies or the Subsidiaries and a person other than Seller after the Closing, the Companies or the Subsidiaries may assert the attorney-client privilege to prevent disclosure of confidential communications by Edwards Wildman Palmer LLP to such person. Other than as explicitly set forth in this Section 12.12, the parties hereto acknowledge that any attorney-client privilege attaching as a result of legal counsel representing the Companies and the Subsidiaries prior to the Closing shall survive the Closing and continue to be a privilege of the Companies and the Subsidiaries, and not Seller, after the Closing.

[Signature Page Follows.]

IN WITNESS WHEREOF, Seller, Buyer and Buyer Parent have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

HOUSEHOLD INSURANCE GROUP HOLDING COMPANY

By /s/ Patrick A. Cozza
Name: Patrick A. Cozza
Title: Chief Executive Officer

PAVONIA HOLDINGS (US), INC.

By /s/ Karl J. Wall
Name: Karl J. Wall
Title: President

ENSTAR GROUP LIMITED

By /s/ Richard J. Harris
Name: Richard J. Harris
Title: Chief Financial Officer

Exhibit 10.1

AMENDMENT LETTER

To: Enstar Group Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

(as Obligors' Agent for and on behalf
of itself and the other Obligors)

25th July 2012

Dear Sirs

Revolving Credit Facility dated 14 June 2011 between, amongst others, Enstar Group Limited (as the Parent), National Australia Bank Limited and Barclays Corporate (as Arrangers) and National Australia Bank Limited (as Agent and Security Agent) (as such agreement may be varied, amended and/or restated from time to time, the "Facility Agreement").

1. DEFINITIONS AND CAPACITY

1.1 Unless a contrary intention is indicated, terms used in this letter shall have the meaning given to them in the Facility Agreement. References to Clauses and Schedules are references to Clauses of and Schedules to the Facility Agreement unless otherwise specified.

1.2 We are writing to you, in our capacity as Agent, for yourself and as Obligors' Agent for the other Obligors pursuant to your appointment as Obligors' Agent under Clause 2.3 (*Obligors' Agent*).

2. DESIGNATION

2.1 This letter constitutes an amendment letter as contemplated by Clause 36 (*Amendments and Waivers*).

2.2 This letter is a Finance Document.

3. AMENDMENT

3.1 The Parties hereby agree that, with effect from30 June 2012:

3.1.1 The definition of "Requisite Rating" in Clause 22.2.1 (e) of the Facility Agreement shall be deleted in its entirety and replaced with the following:

"**Requisite Rating:**

(i) The weighted average rating of the aggregate investment portfolio (determined by reference to the individual rating given by the Rating Agency to each investment) of the Material Companies shall not at any time be less than A-;

(ii) the short term rating and/or long term rating of investments as determined by the Rating Agency for at least 80% of the total value of the investments held by the Material Companies shall not at any time be less than BBB or shall be held in Cash or Cash Equivalent Investments.";

(iii) investments which fall outside of the 80% threshold noted in 3.1.1 (ii) shall be limited to a maximum of 5% per issuer and no more than 5% in private equity investments with the exception of investments in J.C. Flowers funds; and

(iv) no further investment in J.C. Flowers funds by the Material Companies is permitted beyond the commitments existing at the date of this agreement.

3.1.2 Clause 21.2.1 of the Facility Agreement shall be deleted in its entirety and replaced with the following:

"The Parent shall procure that each Obligor and/or each Material Company, as applicable, shall deliver to the Agent in sufficient copies for all the Lenders:-

(a) as soon as they are available, but in any event within 120 days (or 75 days in respect of the Parent) after the end of each of its Financial Years:

(i) the audited consolidated financial statements of the Parent for that Financial Year;

(ii) the audited financial statements of each Obligor and each Material Company for that Financial Year or, if such person is not required to produce audited financial statements and has not done so for that Financial Year, its management schedules for such Financial Year provided that any such person must prove audited consolidated financial statements if the Agent so requests;

(b) as soon as they are available, but in any event within 45 days after the end of the Financial Quarter of each of its Financial Years, the consolidated and unconsolidated financial statements of the Parent and details of net worth for each Material Company as certified by the Chief Financial Officer of the Parent for that Financial Quarter, to include:

(i) (in the case of the Parent only) details of all Disposal Proceeds as defined in Clause 8.2 (Disposal and Insurance Proceeds);

(ii) (in the case of the Parent only) details of all surpluses in any fund or funds of each member of the Group which is an insurance company;

(iii) (in the case of the Parent only) a summary of cash realisations of each member of each relevant Target Group (as appropriate) following the relevant acquisition;

(iv) (in the case of the Parent only) details of the proceeds of the cash realisations of each member of each relevant Target Group following the relevant acquisition;

(v) a discussion of major incurred claims movements with appropriate narrative;

(c) as soon as they are available, but in any event within 45 days after the end of each Financial Quarter of each if its Financial Years:

(i) a written breakdown of all reinsurance and retrocession balances of the Group at the end of that Financial Quarter including details of the counterparty from whom such balances are owed, an ageing of such balances, and details of any movements in any receivables and recoveries made during such period; and

(ii) details of any bad debt or other provisions held by a member of the Group at the end of that Financial Quarter including details of changes made in relation to such bad debts or other provisions together with the reasons for such provisions being made;

(d) for each Material Company with Gross Loss Reserves in excess of US$2,500,000, as soon as it is available, but in any event within 60 days after the start of each of its Financial Years, an actuarial review conducted by a duly qualified independent actuarial company."

3.1.3 Clause 21.4.1 of the Facility Agreement shall be deleted in its entirety and replaced with the following:-

"The Parent shall procure that each set of Annual Financial Statements and Quarterly Financial Statements includes a balance sheet, profit and loss account and cashflow statement. In addition, the Parent shall procure that:-

(a) each set of Annual Financial Statements shall where required be audited by the Auditors;

(b) each set of Annual Financial Statements of the Parent shall include:-

(i) for each UK Regulated Insurance Entity, its Solvency I minimum capital requirement or, post-Solvency II implementation, its Pillar I Capital Requirement;

(ii) for each UK Regulated Insurance Entity, as soon as it is available, but in any event within 90 days after the start of each of its Financial Years, its ICA Capital Requirement;

(iii) for each Non-UK Regulated Insurance Entity, its local capital requirement/Solvency II capital requirement, as appropriate.

(c) each set of Quarterly Financial Statements of the Parent includes:

(i) a cashflow forecast (comprising the Capital Release Schedule) in respect of the Group relating to the twelve month period commencing at the end of the relevant Financial Quarter;

(ii) a statement by the directors of the Parent commenting on the performance of the Group for the quarter to which the financial statements relate and the Financial Year to date and any material developments or material proposals affecting the Group or its business; and

(iii) a report setting out, in respect of each Regulated Insurance Entity: (i) its capital resources; (ii) any deductions made from its capital resources when determining its compliance with its local capital requirement as determined by the relevant regulator and (iii) any waivers provided by the local regulator in respect of solvency requirement compliance."

3.1.4 Clause 21.8.1 (c) of the Facility Agreement shall be deleted in its entirety and replaced with the following:-

"(c) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group outside the normal course of business, and which, if adversely determined would involve a liability, or a potential or alleged liability, exceeding US$2,000,000 (or its equivalent in other currencies);".

3.1.5 Clause 22.2.1 (c) of the Facility Agreement shall be deleted in its entirety and replaced with the following:-

"(c) Regulatory Cover: Regulatory Cover of each Regulated Entity shall at all times be more than 1.1:1 or as otherwise agreed with the regulator of a Regulated Insurance Entity subject to the aggregate shortfall in regulatory capital not exceeding $20m."

3.1.6 The definition of Cash, as defined in Clause 1.1, shall be deleted in its entirety and replaced with the following:-

"Cash means, at any time, cash denominated in freely transferable and freely convertible currency in hand or at bank (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as that cash is repayable on demand."

3.1.7 The definition of Cash Equivalent Investments, as defined in Clause 1.1, shall be deleted in its entirety and replaced with the following:-

"Cash Equivalent Investments means, at any time:

(a) any investment in marketable securities for

(i) which a recognised trading market exists,

(ii) maturing within 92 days of the purchase date of the security,

(iii) which has a minimum rating of either BBB or A-2 by Standard & Poor's Rating services or Baa2 or P-2 by Moody's Investor Services Limited or an equivalent rating by any Nationally Recognized Statistical Rating Organization ("NRSRO");

(b) any money market fund which has liquidity provisions enabling accessibility to funds within 30 business days and with a minimum rating of A-1 by Standard & Poor's Rating Services or P-1 by Moody's Investor Services Limited or an equivalent rating by any NRSRO;

(c) any UCITS fund which has liquidity provisions enabling accessibility to funds within 30 business days and with a minimum weighted average rating of A- or A-1 by Standard & Poor's Rating Services or A3 or P-1 by Moody's Investor Services Limited or an equivalent rating by any NRSRO; or

(d) any other debt or equity security approved by the Majority Lenders."

4. AFFIRMATION

The Facility Agreement and the other Finance Documents shall continue in full force and effect, but subject to the amendment specified in this letter.

5. COUNTERPARTS

This letter may be executed in any number of counterparts, each of which when executed and delivered shall be an original, but all of which when taken together shall constitute a single instrument.

6. GOVERNING LAW AND JURISDICTION

6.1 This letter and all non-contractual obligations arising in any way whatsoever out of or in connection with this letter shall be governed by, construed and take effect in accordance with English law.

6.2 Clauses 39 (*Governing Law*) and 40 (*Enforcement*) of the Facility Agreement shall apply to this letter as if set out in full in this letter and as if reference in those provisions to this "Agreement" were a reference to this letter.

Please sign and return the attached copy of this letter to indicate your acknowledgement, and acceptance, of the terms of this letter.

Yours faithfully

/s/ Carole Palmer
for and on behalf of
National Australia Bank Limited
as Agent

Accepted and agreed

/s/ Richard J. Harris
for and on behalf of
Enstar Group Limited
(for itself and in its capacity as Obligors' Agent
for and on behalf of each Obligor)

Exhibit 15.1

November 8, 2012

Enstar Group Limited
3rd Floor, Windsor Place
18 Queen Street
Hamilton HM JX, Bermuda

Dear Sirs

With respect to registration statements No. 333-149551, 333-148863, 333-148862 and 333-141793 on Form S-8, we acknowledge our awareness of the use therein of our report dated November 8, 2012 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG Audit Limited

Hamilton Bermuda

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Dominic F. Silvester, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Enstar Group Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2012

/S/ DOMINIC F. SILVESTER
Dominic F. Silvester
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Richard J. Harris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Enstar Group Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2012

/S/ RICHARD J. HARRIS
Richard J. Harris
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Enstar Group Limited (the "Company") on Form 10-Q for the quarterly period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dominic F. Silvester, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2012

/S/ DOMINIC F. SILVESTER
Dominic F. Silvester
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Enstar Group Limited (the "Company") on Form 10-Q for the quarterly period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Harris, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2012

/S/ RICHARD J. HARRIS
Richard J. Harris
Chief Financial Officer